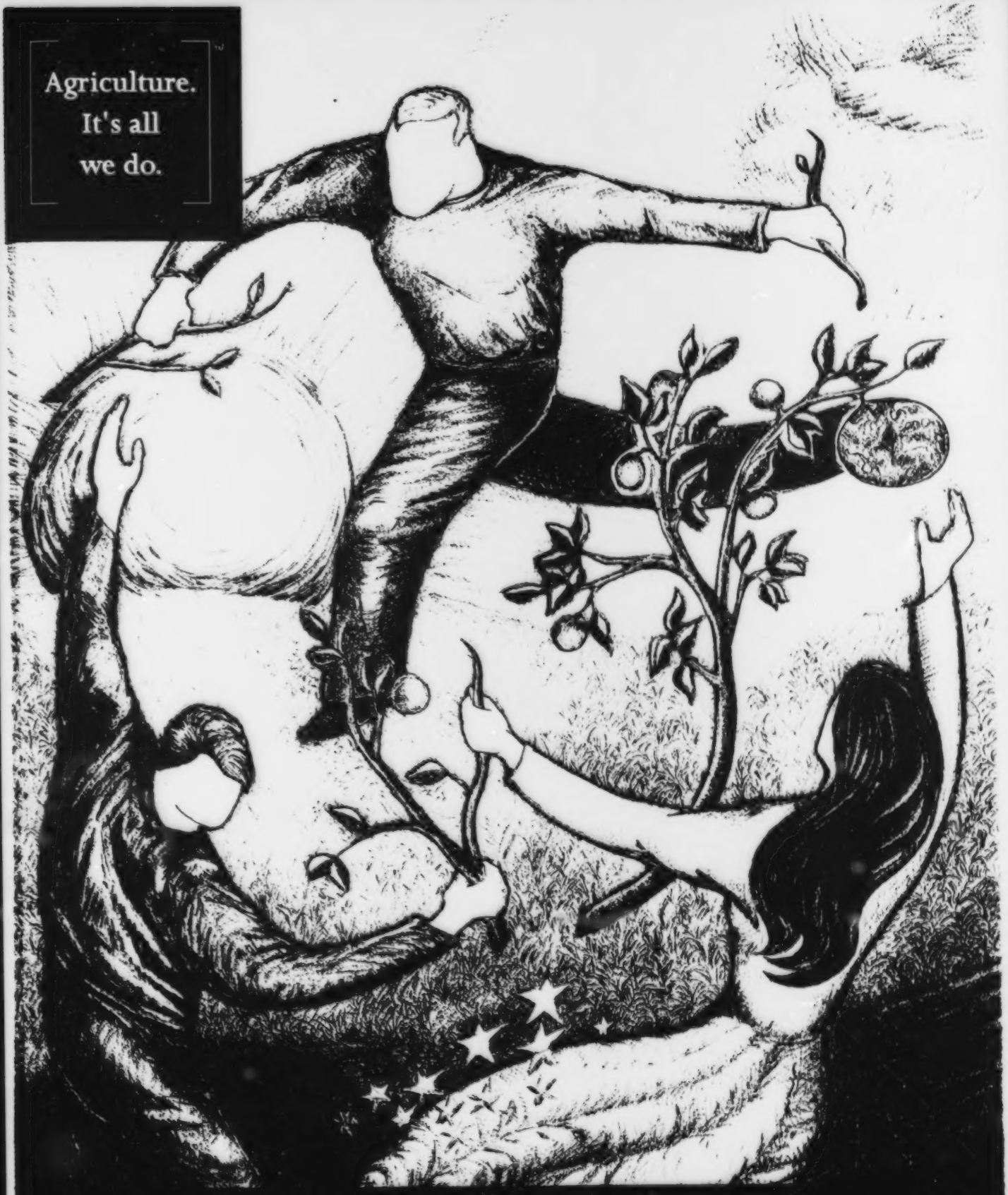
Agriculture.
It's all
we do.™



Farm Credit Corporation 1999-2000 Annual Report

Customer Service. We are committed to building customer loyalty by consistently providing value with exemplary service.

Trust and Respect. We build client trust and respect by conducting our business in a fair and ethical manner and by being sensitive to customer values.

Teamwork. We advocate teamwork and empowerment for staff to do their jobs effectively.

Continuous Learning. We promote professional development of staff and continuous learning.

Partnerships. We believe in partnerships that further enhance our commitment to agriculture.

Corporate Social Responsibility. We support community activities consistent with our vision and are sensitive to the protection of our environment.

Diversity. We believe that a diverse workforce reflecting the various backgrounds and cultures of Canadians brings strength to the organization.

Mission

Our mission is to enhance rural Canada by providing specialized financial services to farming operations – including family farms and small to medium-sized agribusiness – with an emphasis on personalized service.

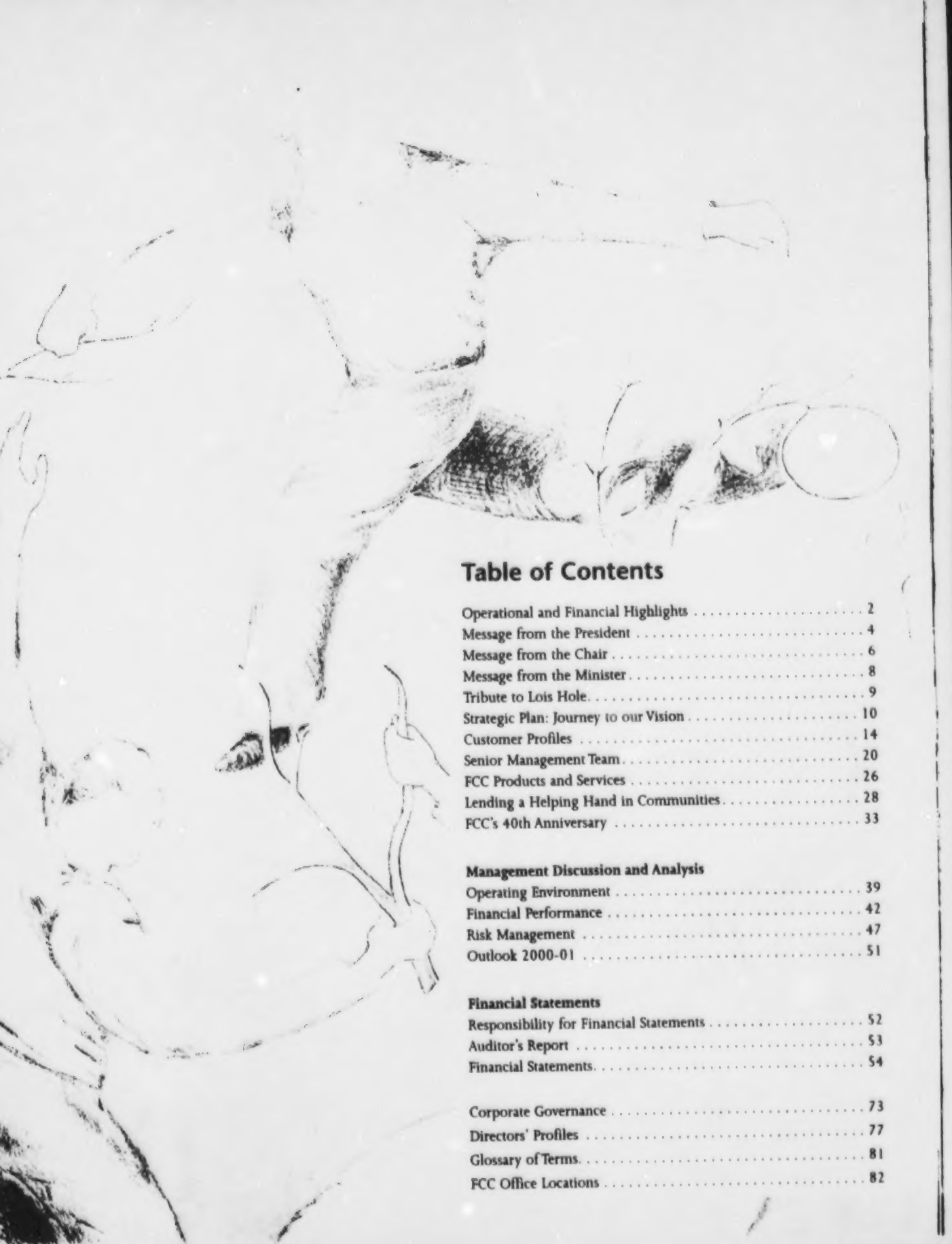
Vision

Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Corporate Profile

Farm Credit Corporation is Canada's largest agricultural term lender, offering flexible financial solutions to primary producers and agribusiness. Corporate office is located in Regina, Saskatchewan with 900 employees serving customers from 100 offices across Canada. FCC's loan portfolio includes 43,700 customers and is valued at $6.3 billion. FCC delivers joint programs and services with government agencies and other financial institutions.

The 1999-2000 annual report was produced by Farm Credit Corporation's Communications & Public Relations and Finance Divisions. Chloé Gendron, FCC's Senior Graphic Designer, created the original illustration for the cover. The illustration symbolizes the meaning of agriculture – people, nature, growth, the passing of time and impact of weather and the environment. FCC customers, employees and Directors were photographed by Paul Austring (except for Quebec customers), with Strategic Plan photograph by Douglas Walker of Regina.



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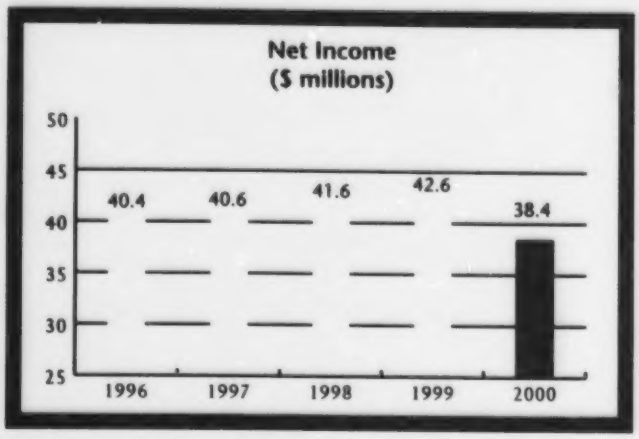
1999-2000 Operational and Financial Highlights

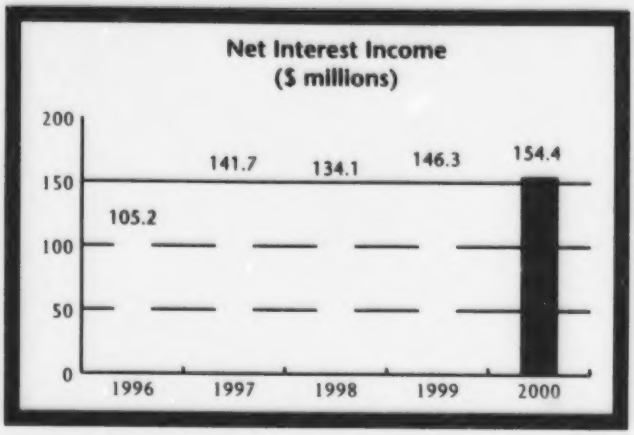
FOR THE YEARS ENDED MARCH 31

Operational	2000	1999	1998	1997	1996
Total Loans Receivable Portfolio					
Number of loans	**73,686**	72,311	69,846	65,318	60,250
Amount ($ millions)	**6,303.8**	5,843.4	5,318.8	4,687.0	4,066.3
Net portfolio growth (%)	**7.9**	9.9	13.5	15.3	15.0
Percentage of loans receivable in good standing (%)	**94.9**	94.8	94.3	93.1	94.1
New Lending					
Number of loans approved	**14,201**	14,880	15,488	12,910	10,193
Amount of loans approved ($ millions)	**1,611.6**	1,617.4	1,525.2	1,402.9	1,032.7
Average size of loans approved ($)	**113,500**	108,700	98,500	108,700	101,300
Real Property Held at Year End					
Number	**924**	1,516	1,787	1,982	2,171
Acres	**360,284**	604,054	725,703	823,841	901,423
Value ($ millions)	**64.9**	103.4	123.5	139.6	153.5

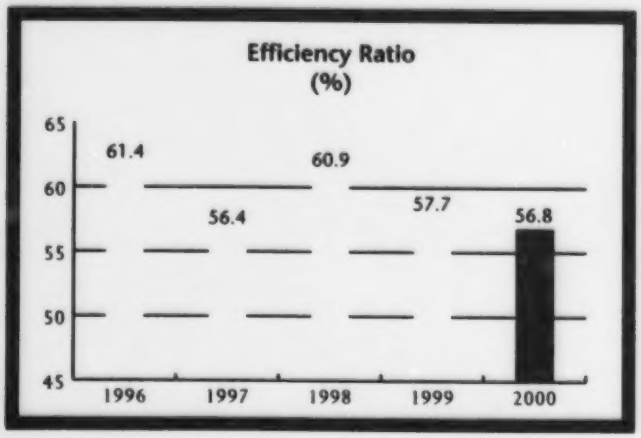
Financial	2000	1999	1998	1997	1996
Revenues and Expenses ($ millions)					
Net interest income	**154.4**	146.3	134.1	141.7	105.2
Provision for credit losses	**52.7**	33.2	18.7	24.0	12.1
Net lease and real estate income	**23.0**	14.7	13.0	7.1	11.3
Other income	**6.4**	7.1	8.8	5.8	4.2
Administration expenses	**90.8**	90.1	89.4	83.4	66.6
Income taxes	**1.9**	2.2	6.2	6.6	1.6
Net income for the year	**38.4**	42.6	41.6	40.6	40.4
Financial Position ($ millions)					
Total assets	**6,570.7**	6,125.1	5,706.2	5,022.4	4,371.4
Total liabilities	**5,943.5**	5,533.2	5,156.9	4,564.7	3,951.6
Equity	**627.2**	591.9	549.3	457.7	419.8



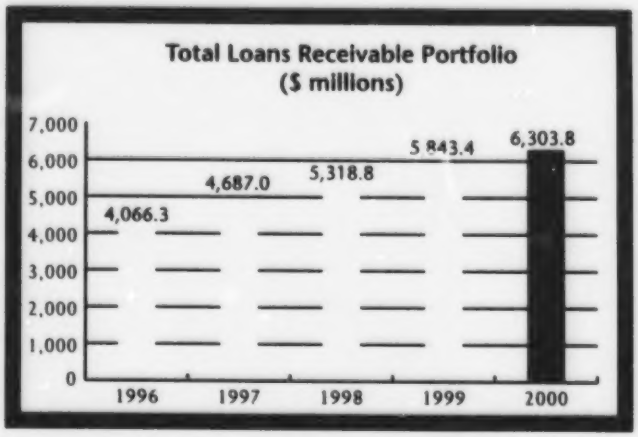
Net Income down 9.9%



Net Interest Income up 5.6%



Efficiency Ratio improved 1.6%, showing increased efficiency



7th consecutive year of growth with growth rate of 7.9% in 1999-2000

As a sovereign borrower,
FCC maintains an AAA credit rating.

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Message from the President

At Farm Credit Corporation, we share our customers' passion for agriculture and their commitment to its success. This is our raison d'être and what unites us from coast to coast.

In agriculture, success starts with an idea – from cultivating a new crop variety to focusing on emerging niche markets and having the vision to process production locally to add value closer to home. Our customers are these innovators.

Our customers wear many hats and work in as many areas of agriculture as exist across Canada. They are farmers, agribusiness operators, business managers, entrepreneurs, community leaders and parents. One characteristic is common to all: their commitment to agriculture and to the rural way of life. With stamina and discipline, they pursue their ideas through challenging times, continuously seeking new ways to thrive in a changing agricultural industry.

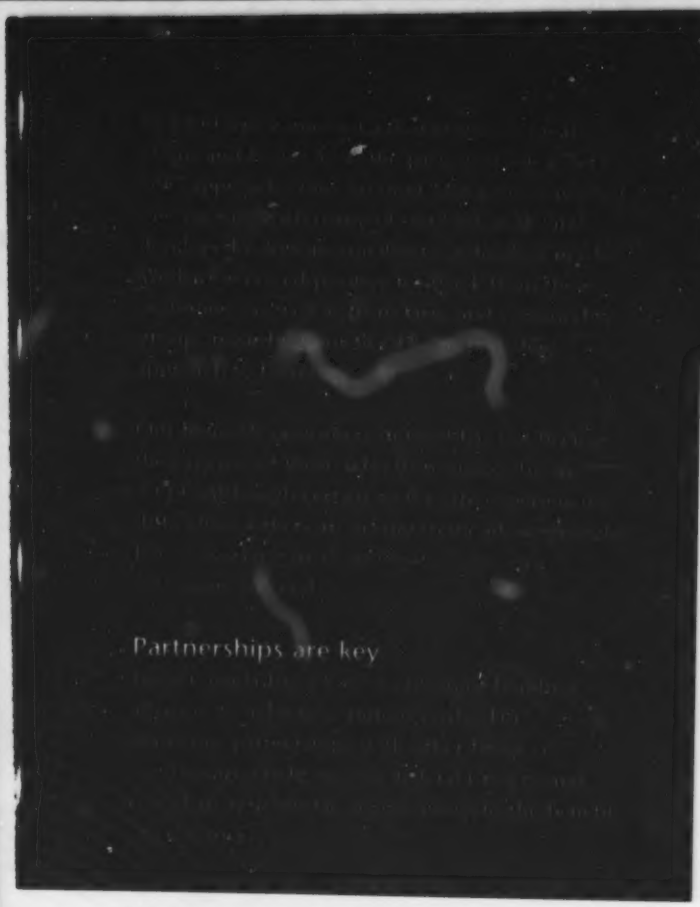
Farm Credit Corporation (FCC) supports this commitment to excellence in agriculture. In 1999, FCC celebrated 40 years of serving agriculture and rural Canada. Through four decades of change, growth and commodity cycles, we transformed with our customers – providing financing services and specialized expertise to several generations of producers.

Today, we have grown to be Canada's largest agricultural term lender, offering a range of flexible financing solutions to primary producers and small to medium-sized agribusiness. Everything we do reflects our vision – to lead the way in agricultural financing – from working with customers and establishing strategic partnerships to setting the Corporation's direction and giving back to the communities we serve.

FCC's growth is directly attributable to our vibrant customer-oriented culture, our singular focus on agriculture and the growing agricultural economy. This emphasis is not lost on our customers and agricultural stakeholders. They have told us that "we get it": our employees listen and understand agriculture's unique challenges. And when our customers succeed, so do we. In 1999-2000, we experienced our seventh consecutive year of solid financial results and the growth of our loan portfolio to $6.3 billion, as of March 31, 2000.

We listen to customers first, then provide customized solutions

We're in this business for the long term. We stay committed to the industry when times are tough and help it innovate and grow when opportunity is abundant. Canadian agriculture is undergoing significant change – with everything from bold new production techniques, increased marketing sophistication and competitive global markets.



This year, we entered into one such alliance that expands the financial choices available to the agricultural community. In February 2000, FCC and CULEASE Financial Services™ launched a new lease-based financing option available through FCC's National Dealer Equipment Program, initially in Western Canada. The service has been expanded to Ontario and will be available across Canada. CULEASE Financial Services is owned by Co-operative Trust Company of Canada and managed by the Credit Union Central of Saskatchewan. Leasing can make good business sense to customers who are interested in this option.

Agriculture is all our people want to do

In order to contribute successfully to the agricultural industry, we must retain and hire the best staff available. Specialized expertise is our greatest strength. We derive this strength from the uniquely talented individuals who we are privileged to work with. Many of our employees have roots in agriculture and they have experienced the challenges and opportunities that face our customers. They have a vested interest in the enhancement of rural Canada.

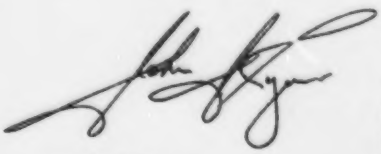
That's why we continue to invest in our employees. We promote training and development that not only deepens professional expertise but also helps our employees focus on designing products, services and innovative solutions to benefit our producer and agribusiness customers.

Serving our customers in the future

As we examine the trends impacting agriculture, we are challenged to develop financial solutions that will work in the future. FCC must anticipate the needs of the agricultural industry before that future arrives. We are committed to leveraging our expertise by consulting with stakeholders to design solutions that meet this industry's unique needs and that help our customers succeed. This is a fundamental component of how we run our business. As the industry undergoes further transformation, we can't wait for our customers to come to us – we will go to them with the innovative financial solutions they require.

FCC continues to evolve and to serve Canadian agriculture by striving to keep one step ahead of our customers' needs. After all, if we're to be visionary leaders in agricultural financing, we must see the future now.

In that future, we will continue to innovate and provide the Canadian agricultural industry with the service, expertise and understanding that is our hallmark. Agriculture. It's all we do.™



John J. Ryan
President and Chief Executive Officer

Message from the Chair

We measure success by the impact we have on our customers and the communities we serve.

Far beyond ledgers and financial transactions, FCC nurtures a corporate culture that supports creativity, excellence and a commitment to give back to our communities. This is demonstrated in everything we do, from listening to a customer's business needs to working with local not-for-profit groups.

In 1999-2000, FCC successfully introduced a number of new initiatives designed to further the success of the Canadian agricultural industry. FCC demonstrated its support of the development of Canadian agriculture by sponsoring Excellence 2000 in February – a symposium hosted by the Canadian Farm Business Management Council. This ground-breaking symposium provided farm and agribusiness managers a forum to discuss innovative ideas and share industry expertise with their Canadian peers and international experts.

FCC believes strongly that employee excellence and exceptional service to our customers are inextricably linked. Therefore, in fiscal 1999-2000, the Board approved a new employee incentive-based compensation program. We also approved the decision to withdraw from the federal government pension plan and the creation of Solstice, a new pension plan exclusively for FCC employees.

Our commitment to community permeates our business. Both the Board and the Corporation's management consider the needs of our stakeholders in our decision-making process. We pursue our goals by integrating economic, environmental and social growth opportunities into our day-to-day business practices and long-term strategies. Community involvement is a key expression of the value we place on corporate social responsibility. We demonstrate this through our membership in the Imagine group of Caring Companies, contributing one per cent of pre-tax income to charitable and not-for-profit organizations.

At a national level, we helped disabled farmers address the challenges they face in running successful agricultural operations. We supported National Farm Safety Week in co-operation with the Canadian Federation of Agriculture and the Canadian Coalition for Agricultural Safety and Rural Health. FCC also worked with the Safe Drinking Water Foundation to highlight the importance of the integrity of water quality in rural communities.

We are dedicated to agriculture for the long term. With this in mind, we have pursued partnerships with key organizations that will help develop the future leaders of agriculture. Last year, we continued our partnerships with the Canadian Young Farmers Forum and the Canadian 4-H Council.

While we are pleased to be in a position to donate dollars to such organizations, it is our employees who bring our community involvement to life. Behind every successful partnership and project, at both the national and local level, are committed and caring FCC employees. Thanks to them, FCC's 1999 nationwide United Way campaign achieved a corporate record of $91,000.

FCC's Board of Directors is well recognized for their commitment to agriculture and community. In the past year, we bid farewell to two Board members who made important contributions to FCC during their tenure.

All of us at FCC were delighted when Lois Hole was named a member of the Order of Canada and subsequently appointed Lieutenant-Governor of Alberta. Mrs. Hole resigned from the Board in February 2000 to take on her new responsibilities.

Our Board also bid farewell to Peter Rampton, whose term expired in April 1999. A member of the Board since 1995, Mr. Rampton's contributions to the Audit and Human Resources Committees were significant and we wish him all the best. We also take this opportunity to welcome Maurice Kraut, who was appointed to the Board in June 1999. Mr. Kraut brings a wealth of agricultural experience to the Board.

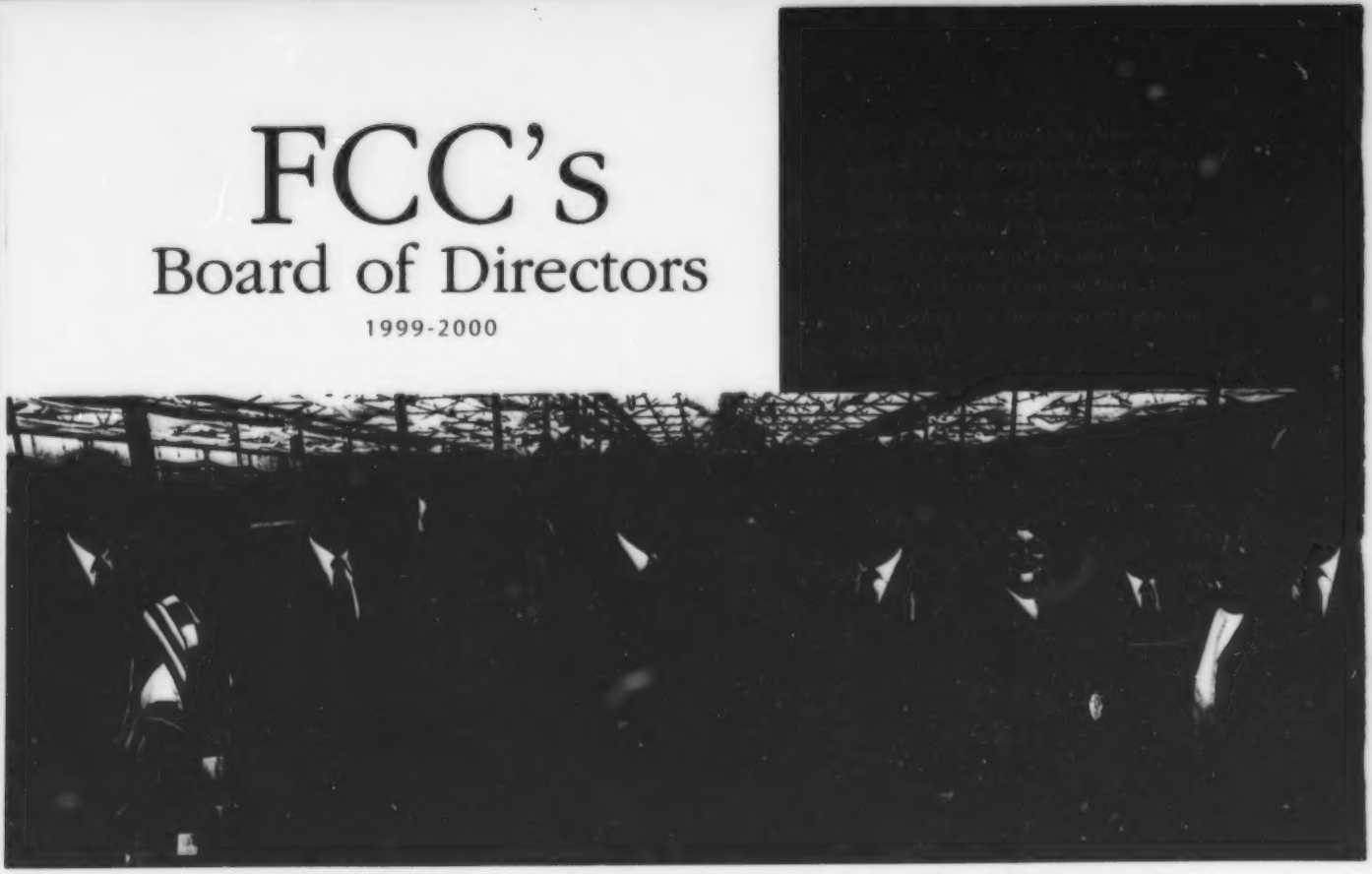
We recognize that the Corporation's focus on our customer is born out of our employees' fundamental passion for agriculture, a passion we share.

Respectfully submitted on behalf of the Board of Directors.

Donald W. Black
Chair

FCC's Board of Directors

1999-2000



(left to right) Rashpal Dhillon, Marilyn Marie Scott, John J. Ryan, Germain Simard, Lois Hole, Warren Ellis, Eleanor M. Hart, Donald W. Black, Marie-Andrée Mallette, Edward W. Clark, Rosemary Davis, Maurice Kraut.

Message from the Minister

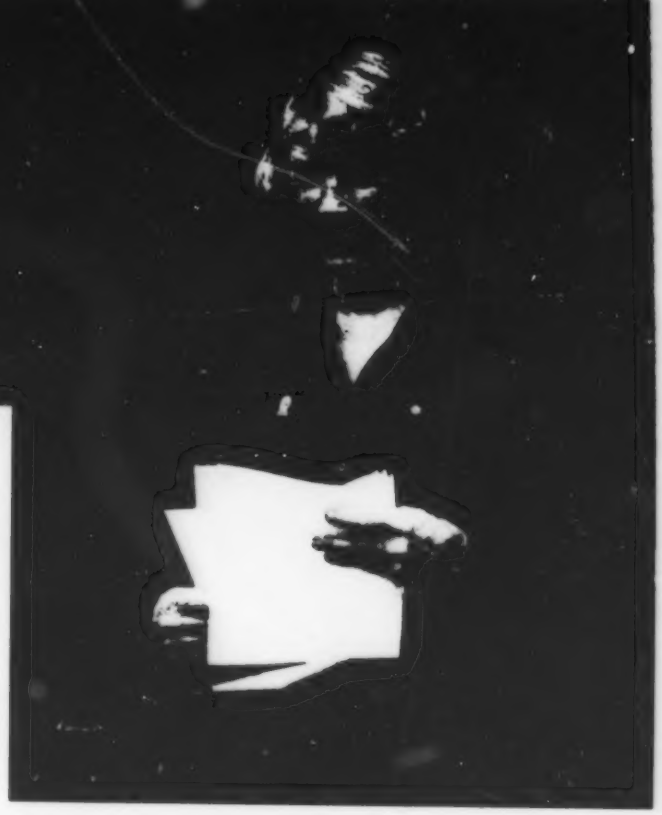
Canadian agriculture is at a crossroads. The industry faces challenges ranging from increased global competition and volatile commodity markets to a maturing rural population. Canada's primary producers and agribusinesses are making business decisions today that will define the future landscape of the agricultural industry and rural Canada.

The Government of Canada is working hand-in-hand with an industry that, true to its co-operative and entrepreneurial roots, is creating viable, long-term opportunities from these challenges. By diversifying and identifying new international markets, the industry is introducing the world to "made-in-Canada" quality.

I am proud to say that Farm Credit Corporation is a valued partner in this industry. FCC is pursuing a vision – to lead the way in agricultural financing. I am confident that FCC will realize this vision with the commitment of its Board of Directors and the dedication of employees across Canada. Completely focused on agriculture, FCC is helping primary producers and agribusiness operators develop and expand innovative, viable enterprises that will benefit agriculture and enhance rural Canada.

The Honourable Lyle Vanclief
Minister of Agriculture and Agri-Food

FCC Director Lois Hole
recognized for outstanding contributions



It's not often that an individual receives not one, but two national honours from the Prime Minister in a single year. However, Lois Hole, a Director on FCC's Board from 1995 until this past February, is no ordinary individual.

Last fall, Prime Minister Jean Chrétien placed the first call to Mrs. Hole to inform her she had been appointed a member of the Order of Canada for her lifetime of contribution to agriculture, community and Canadian culture. A few months later, in February, she received the second call asking her to accept the appointment as Lieutenant-Governor of Alberta.

Upon accepting her new duties, Mrs. Hole was obliged to resign from all other positions, including FCC's Board of Directors. We at FCC are grateful for her five years of unwavering commitment to the vision of the Corporation in serving Canadian producers and to the welfare of all employees and customers.

"In her five years as an FCC Director, Lois repeatedly demonstrated her dedication to improving Canadian agriculture. Her leadership and experience have been valuable assets for FCC and all our staff," said Donald W. Black, Chair of FCC's Board. "She always encouraged the Corporation's efforts to promote excellence in customer service through leadership development initiatives and innovative compensation for staff members."

Mrs. Hole's contributions have touched many areas. She was the 16th Chancellor of the University of Alberta and is a renowned author of several gardening books. She and her husband, Ted, are co-founders of Hole's Greenhouses and Gardens Ltd. in St. Albert, Alberta, a 40-year-old operation that is one of the biggest retail garden centres and greenhouses in Western Canada.

FCC employees wish Mrs. Hole all the best in her new responsibilities as Lieutenant-Governor and believe her contribution to culture and community in Alberta will build on her already impressive record of accomplishment.

Customer Loyalty and Market Presence

STRATEGIC INITIATIVES 1999-2000

To meet the evolving needs and challenges of the agricultural industry, FCC will seek out new services, new delivery channels and new markets.

- Offer customers innovative products and services to grow our support of the agricultural industry, resulting in $1.0 billion in new loan disbursements to primary producers.
- Develop specific agribusiness strategies to support the growth and diversification of our customers, resulting in $262 million in new agribusiness loan disbursements.
- Establish financially viable strategic alliances to strengthen FCC's product and service offering, thereby ensuring that farmers have access to the broadest possible range of financial services.
- Develop and implement a Customer Relationship Management (CRM) system that enhances service delivery and customer satisfaction.
- Develop products and services to meet increasing customer demand for complementary financial services.

1999-2000 *RESULTS*

Innovative solutions support growth

- FCC disbursed $1.3 billion in new lending to primary producers.
- In February, FCC introduced a capital leasing product in partnership with CULEASE Financial Services and the credit union system, which offers customers a lease financing option for the purchase of equipment and portable buildings.
- New seven and 10-year mortgage property loans with 10 per cent prepayment privileges, made available in April 1999, allow customers to lock in their mortgage costs and still make significant yearly supplementary payments against the principal.
- Two and four-year term mortgage property loans were offered in April 1999 to provide customers with additional amortization options that better reflect their repayment ability.
- Lending through our unique AgriStart™ product line for developing farmers reached $131.1 million since the launch in 1998.

Human Resources and Organization

STRATEGIC INITIATIVES 1999-2000

Create a work environment which will attract the best people who will, in turn, provide excellent service to FCC customers.

- Recruit and develop the highest calibre employees whose industry knowledge will continue to differentiate FCC as a leader in agricultural financial services. The goal: that 90 per cent of new hires successfully pass probation.
- Maximize customer service while improving employee productivity through a work environment that fosters innovation and knowledge and focuses on the key fundamentals of trust, diversity, job satisfaction and work-life balance. Success will be measured through FCC's annual employee satisfaction survey and a voluntary staff turnover rate of less than 10 per cent.
- Assist employees to develop their careers through learning opportunities and career planning. FCC will invest 3.5 per cent of the salary budget in training.

1999-2000 *RESULTS*

Retaining and attracting high calibre employees

- FCC developed new pension and compensation plans to help the Corporation retain and attract employees who have the agricultural expertise our customers require.
- The percentage of successful hires over the past year is 97 per cent.

Improve productivity through a work environment that fosters innovation and knowledge

- In order to better recognize the diversity of its workforce, FCC formed a National Diversity Advisory Committee to ensure consideration of employment equity in new policies and programs. In addition, diversity awareness training was provided to all managers and executives at FCC.
- The voluntary staff turnover rate at year end was 10.5 per cent.
- The results of the 1999 employee satisfaction survey outlined where progress has been noted in organizational efficiency and identified key areas for improvement, to which staff action groups have proposed solutions.

OBJECTIVES 2000-01

Developing specific agribusiness strategies

- New lending to agribusiness totalled $146.2 million, short of the new lending target of $262 million due to FCC's cautious approach to entering a relatively new sector. However, long-term growth prospects remain strong.
- FCC's new agribusiness strategy focuses on the specific financial needs and growth opportunities in this sector.

Financing through strategic alliances

- Total new lending through our strategic alliances is $190.6 million.
- In October 1999, FCC introduced a term loan, with terms matching the time livestock is in the feedlot, through its feeder finance alliances. This product will help the feeding industry remain competitive in the global marketplace.

Enhancing customer relationships

- A new Customer Relationship Management (CRM) framework will help integrate major corporate initiatives to enhance FCC's relationship with customers.

Create solutions for customer success.

Goals and measures

1. **Grow support for primary production and agribusiness through increased market presence and continued customer relationship building by:**
- disbursing $1.2 billion to primary production
- achieving $230 million in disbursements to agribusiness
- implementing the Customer Relationship Management strategy by March 31, 2001
- establishing Customer Loyalty Index and FCC Brand Awareness benchmarks by March 31, 2001

2. **Enhance existing and develop new channels for service delivery with:**
- $105 million in disbursements to agribusiness via strategic alliances
- $27 million in disbursements through the National Dealer Equipment Financing Program
- developing the corporate service delivery channel strategy by January 1, 2001 for implementation in 2001-02
- implementing an e-business strategy by March 31, 2001

3. **Anticipate customer needs and respond with:**
- two new complementary products/services
- five new interest-based solutions

OBJECTIVES 2000-01

Assisting in career development

- FCC introduced a Leadership Development Program and offered career planning workshops to reinforce employee and management accountability in career development.

Providing learning opportunities

- FCC invested 5.5 per cent of the annual salary budget in training costs.
- All managers, including the Senior Management Team, completed leadership training.
- FCC implemented a new three-level Credit Certification program to provide lending staff with the skills and knowledge they need to be effective in their jobs.
- All field staff received Managing Local Markets training which provides the tools they need to transform customer and market information into improved customer service.

Unique people leading our success.

Goals and measures

1. **Inspire innovation by encouraging individual leadership and recognizing contributions.**
- Innovative ideas generated through staff with realized savings or demonstrated efficiencies.
- Employee participation in designing processes which lead to a 30 per cent efficiency gain.

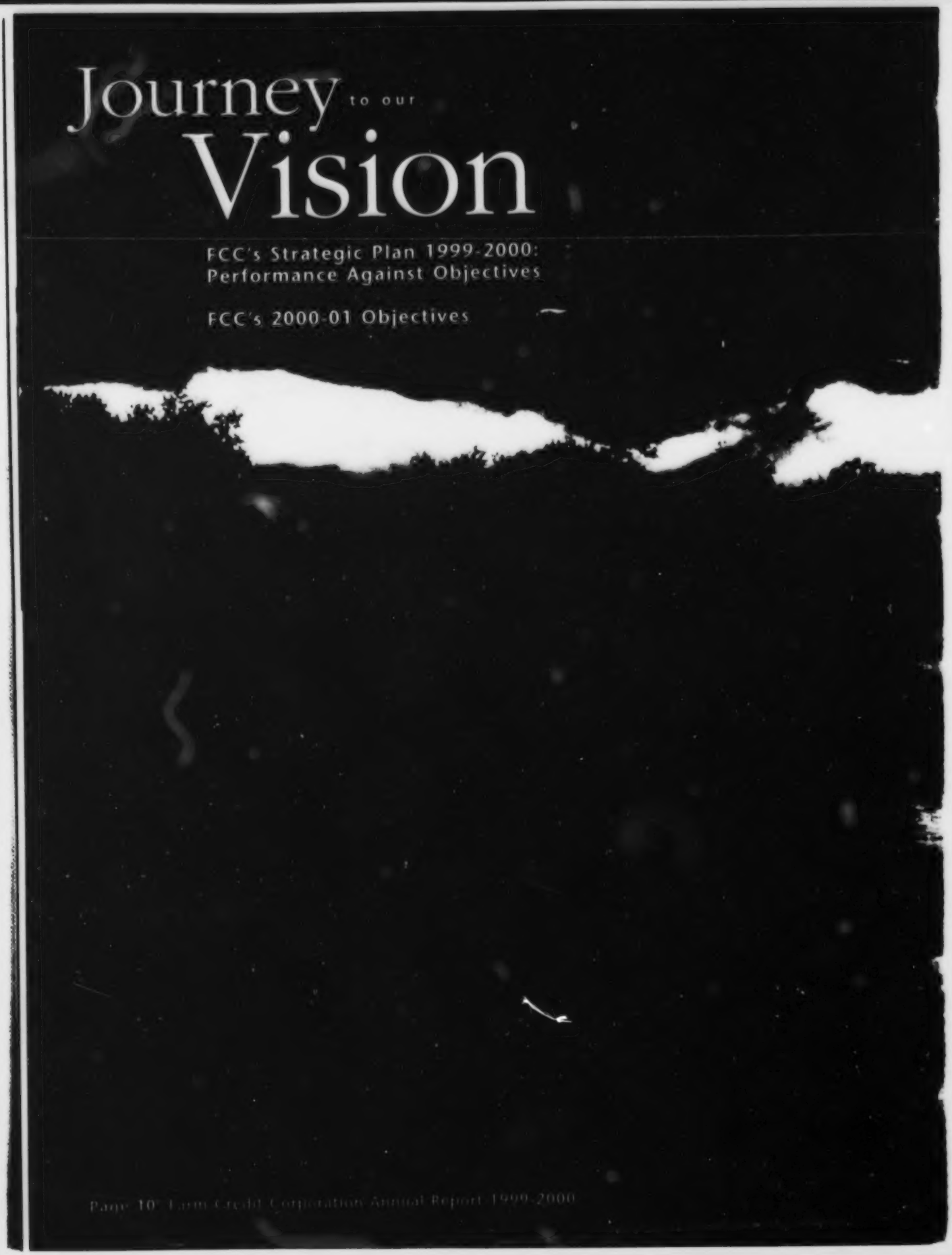
2. **Improve factors impacting employee satisfaction.**
- Improve the annual employee satisfaction survey results.
- Voluntary turnover rate of less than 10 per cent.
- Fully meet linguistic obligations to staff as defined by the *Official Languages Act*.

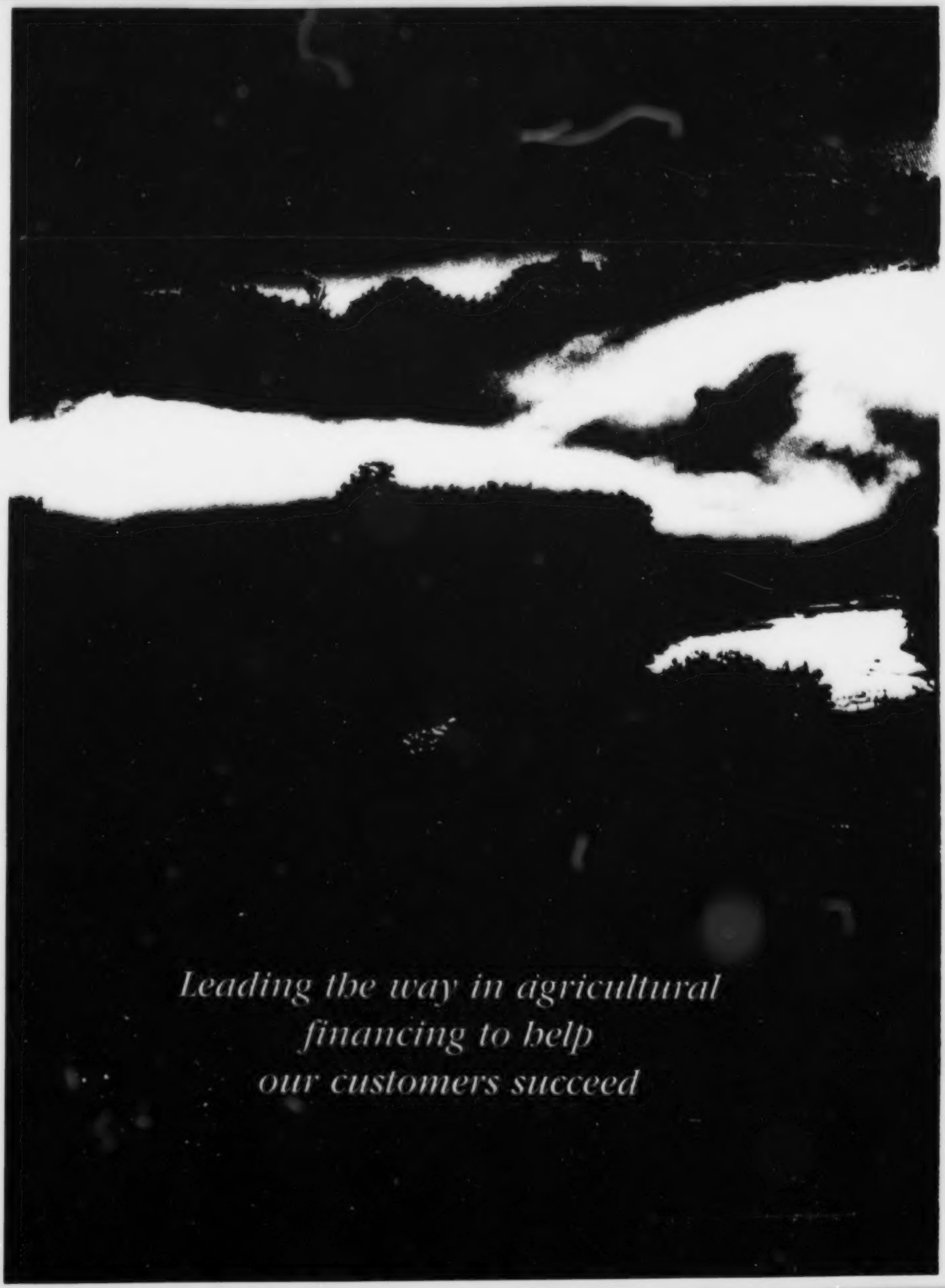
3. **Develop expertise by supporting a learning environment.**
- Invest 3.5 per cent of salary budget in training and development.

Journey to our Vision

FCC's Strategic Plan 1999-2000:
Performance Against Objectives

FCC's 2000-01 Objectives




Leading the way in agricultural
financing to help
our customers succeed

Process Effectiveness and Quality Improvement

STRATEGIC INITIATIVES 1999-2000

Continuously improve business processes, resulting in higher quality customer service, reduced costs of service delivery and increased productivity.

- Design innovative ways to deliver services internally and externally, enhancing service to customers and resulting in a reduction of the efficiency ratio.
- Develop cost-effective and flexible technology architecture and business applications to enhance customer service and properly support FCC's business needs. Success will be measured by the introduction of service standards for network accessibility and the achievement of 98 per cent system reliability.
- Improve availability and quality of corporate information to enhance customer service delivery. One way this goal will be achieved is by ensuring that 100 per cent of required customer information fields are completed.

1999-2000 *RESULTS*

Increasing efficiency for improved service

- A review of field operations, particularly loan origination, resulted in a more customer-driven process with the following benefits:
  - more contact alternatives for customers
  - fewer hand-offs – business unit originating the loan responsible for process through to completion
  - simplified approval and appraisal criteria

Final redesigned processes will be implemented during fiscal 2000-01.

- Process reviews have resulted in a 30 per cent improvement in processing time at our internal Customer Service Centre.
- A review of the alliance loan process is expected to result in a 50 per cent reduction in processing time, thereby increasing value to the customer.
- Initiatives in this area have resulted in an improved efficiency ratio of 56.8 per cent, down from the previous year's result of 57.7 per cent.

Financial Success

STRATEGIC INITIATIVES 1999-2000

Focus on long-term financial viability in order to enable FCC to provide superior customer service while offering competitive pricing.

- Realize stable and profitable asset growth with returns in excess of the Government of Canada's cost of capital. Measures for success:
  - Return on Equity (ROE) of 5.7 per cent
  - Return on Assets (ROA) of 0.55 per cent
  - Debt-to-equity ratio of 9.7:1
  - Loan portfolio growth of 6.2 per cent
- Diversify FCC's revenues by identifying alternate revenue sources which would contribute 5 per cent of total new income in 1999-2000.
- Maintain and improve corporate margins by setting specific lending margins and sourcing cost-effective funding.
- Actively manage portfolio, credit and interest rate risks in order to provide sustainable growth, stable earnings and a fair risk return.
- Improve the Corporation's ability to assess and manage risk through the complete integration of a risk management framework.

1999-2000 *RESULTS*

Maintaining a solid foundation

- Fiscal year-end results show steady growth and strong returns, thereby ensuring financial viability:
  - ROE of 6.3 per cent
  - ROA of 0.60 per cent
  - Debt-to-equity ratio of 9.5:1
  - Loan portfolio growth of 7.9 per cent

Generating alternate revenue

- Capital leasing product developed in conjunction with CULEASE Financial Services will provide the Corporation with alternate revenue.

Maintaining corporate margins

- Corporate margins were maintained at a level that ensures FCC will be financially viable and able to continue serving agricultural customers into the future.
- Borrowing costs for 1999-2000 were seven basis points over the Government of Canada's cost of capital, an improvement of five basis points from the previous year.

Flexible technology solutions

- FCC is the first company in Canada to install a new technology application – the network version of the Managing Local Markets software. This system will help FCC provide improved service to customers.
- FCC established new data standards and data recovery procedures to ensure proper maintenance and improve access to all corporate systems.

Improving data quality and delivery

- Customer and loan information was updated and standardized to ensure staff have the information necessary to provide superior customer service.
- FCC's data warehouse standardized reporting of corporate financial information and improved access to and integration of data from various systems.

Make it easy for customers to do business with us.

Goals and measures

1. Continuously improve product and service delivery by:

- completing loan administration system enhancements by March 31, 2001
- reengineering the loan process by March 31, 2001 to realize an efficiency gain of 30 per cent
- developing the corporate service delivery channel strategy by January 1, 2001 for implementation in 2001-02
- implementing an e-business strategy by March 31, 2001
- introducing corporate-wide service levels and service standards by March 31, 2001
- ensuring equitable service to customers in the language of their choice in all designated offices by March 31, 2001

2. Transform information into knowledge.

- Ensure 100 per cent of required customer information fields are complete.
- Develop and approve a corporate knowledge management strategy by March 31, 2001.

OBJECTIVES 2000-01

Managing risk

- FCC's new Risk Scoring and Pricing System helps evaluate the type and potential impact of risks present in each loan, ensuring that product pricing reflects these risks.
- Work continued on the Integrated Risk Management project:
  - A methodology for assessing and measuring risks was completed.
  - A standard basis for continuous measurement of risk and assessment of risk limits in order to monitor performance was developed.
  - Performance measures and acceptable risk levels for three short-term risks – agribusiness, portfolio and technology – were established.

Financial success – the foundation of continued customer support.

Goals and measures

1. Ensure long-term viability by attaining the following financial targets in 2000-01:

- Efficiency ratio of 57 per cent
- Return on Equity (ROE) of 6.6 per cent
- Return on Assets (ROA) of 0.63 per cent
- Debt-to-equity ratio of 9.3:1

FCC will also continue to measure risk through the use of a strategic credit risk model in order to ensure a "managed" approach that is neither conservative nor aggressive.

Treasury operations will also be managed within approved risk limits.

Climbing to the top of B.C.'s ice cream mountain

"We've found that as an aggressive and enterprising operation that's smaller and more efficient, we could compete with some of the bigger players in the field," says Ray Feenstra, Coast Mountain's Managing Director. "Some of the bigger companies have left the province and that created a gap that could be filled by a company like us."

Coast Mountain now supplies ice cream to major grocery retailers like Overwaitea and IGA under its Arctic Star brand. In addition, the company markets gourmet Mountain Gold and Mountain Pride brands with flavours such as Espresso Flake, Death by Chocolate, Black Raspberry Cheesecake and Fudgee Turtle.

While the Arctic Star brand makes inroads in B.C. grocery stores, the company continues to produce the world-famous Baskin-Robbins product in 31 flavours.

As part of its role in Baskin-Robbins production, Coast Mountain must adhere to strict production standards. A digital camera is used to document production and the photos are sent to Peterborough, Ontario to ensure standards are being met.

"Every quarter, we send a number of samples to their lab in Los Angeles where they test the ice cream for taste, looks and texture," Feenstra says. "Of all the plants throughout the world, we consistently come out in the top two. We have a marvelous crew here and they produce an excellent product."

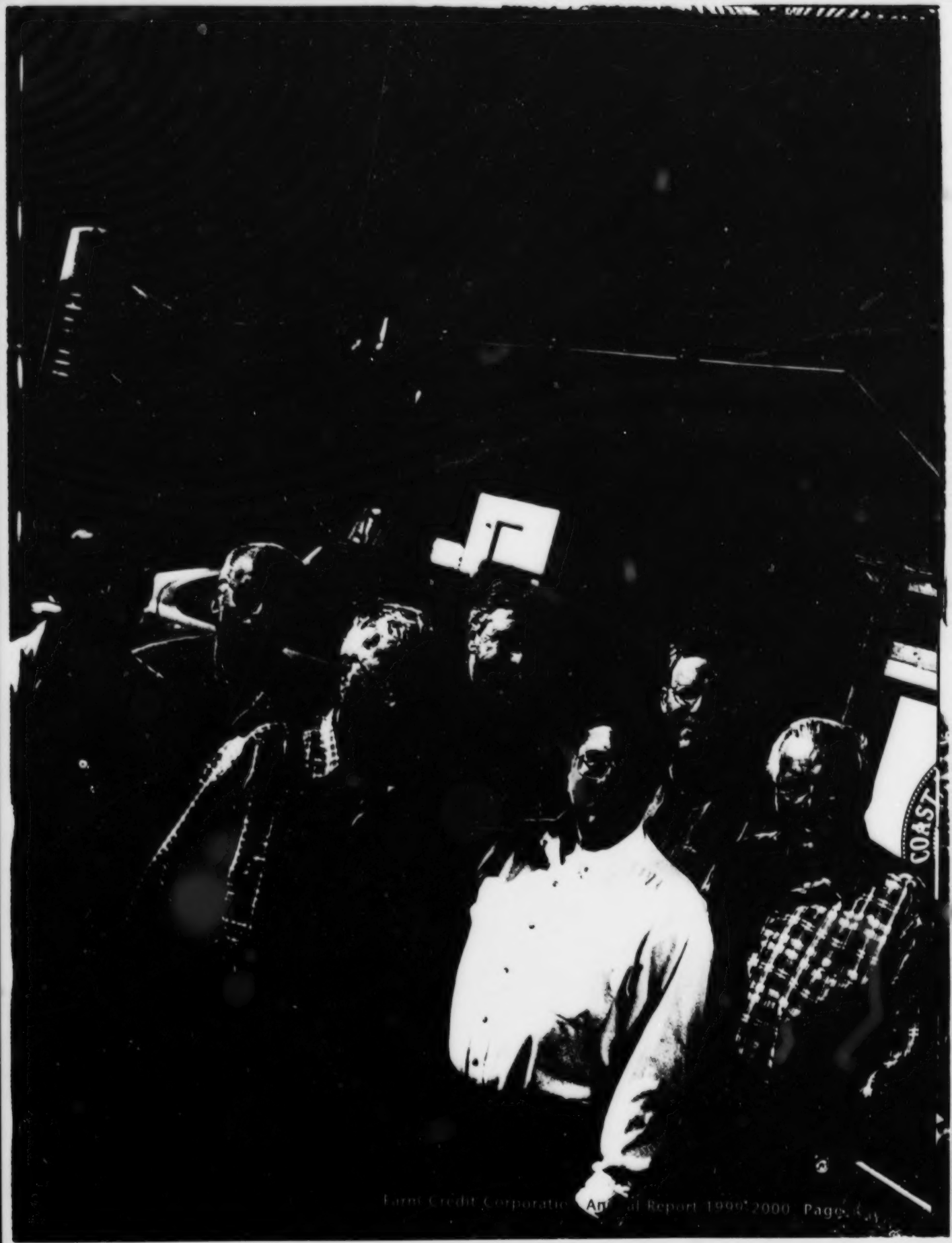
Lately, Coast Mountain has been increasing production to meet emerging market needs. With the purchase of new equipment, the dairy has tripled its production capability from six million litres of ice cream per year to about 20 million.

Feenstra says all that expansion has required an increase in financing – and FCC has been a great partner for success. "When we call Ray Wagner, he's always more than willing to come down and see what he can do for us," Feenstra maintains. Today, with three loans on the books, Wagner, their FCC Agribusiness Account Manager, is an important part of Coast Mountain's growth strategy.

Wagner says gaining an understanding of the company's business plan was an important first step in developing a good relationship with Coast Mountain. With more understanding of the owners' objectives, FCC has been able to tailor the right mix of financing solutions and amortization terms to help Coast Mountain gain market share.

"It's not difficult to share in the owners' enthusiasm when you are dealing with a business that manufactures a high quality product and has a clear vision on how to succeed in the marketplace," Wagner explains.

The Coast Mountain Dairy team at the plant in Abbotsford, B.C. (adjacent page left to right):
back row - Mike McDonough, John Bowman, Richard Tockema;
front row - Ben Morthorst, Ray Feenstra, FCC's Ray Wagner, John Flier.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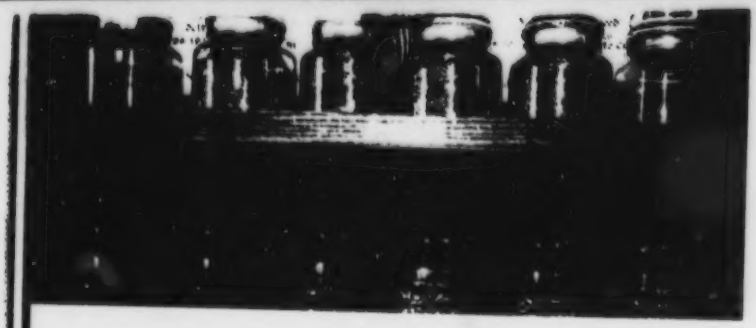

Sowing the seeds of success

With its customer-friendly Web site and stunning array of choices, Wagon Wheel Seed Corporation has been quick to adapt to changing consumer trends. But for owners Warren and Carla Kaeding, it's just another chapter in an ongoing quest to find what's new.

The Kaedings, along with Warren's parents, operate Wagon Wheel in Churchbridge, Saskatchewan, just west of the Manitoba border. While Wagon Wheel is definitely a business, it's also a family-run operation. Warren and Carla, along with Warren's father, Roger, are all shareholders in the business.

Wagon Wheel has expanded into a burgeoning pedigreed seed operation that features more than 50 varieties of grain crops plus specialized types of grass and forage seed.

Warren and Carla's diverse operation helped them win the national 1999 Outstanding Young Farmer Award, along with a couple from Alberta. The Kaedings grow crops on 3,000 acres, contract another 3,000 and have a custom spraying and trucking business. They also market seed throughout Western Canada and into the northern U.S.

Lately, Wagon Wheel has also been expanding into nutraceuticals, like echinacea, to capitalize on the demand for natural dietary supplements and medicinal products. Warren's dad keeps in touch with a contact from a nutraceutical company to get ideas on new crops.

One of Wagon Wheel's latest ventures is in fireweed, a member of the evening primrose family. The perennial flowering plant is one of the first things to grow after a forest fire and has anti-inflammatory properties that make it sought after for lotion and after-shave. "I believe nutraceuticals will have a real place in the future," Warren says.

With continuing expansion and a bevy of unique products, the Kaedings rely on FCC Account Manager Becky Niessen to handle their financing needs. "It's very important to keep communicating with Warren because he's always working on something new," Becky explains. "Fortunately, he tells me well in advance what he's up to." Becky and the Kaedings have a long history of working together. Becky was there when Warren and Carla came in for their first loan in 1995 and also attended university with Warren in the 1980s.

While Wagon Wheel is definitely a business, it's also a family-run operation.

"It's been an excellent experience to work with Warren and Carla," Becky says. "Carla is a certified general accountant by trade so they keep excellent records. When you ask to see their books, they give you books!"

Warren says FCC's flexibility made it one of their first choices when Wagon Wheel began expansion. "We used FCC's term mortgage for our home quarter to buy it from mom and dad. FCC was flexible with the way we wanted to do things and was interested in our business."

One day, Warren would like to see his two sons, Michael and Matthew, take over Wagon Wheel if they're interested.

As for his own future, Warren looks forward to new frontiers for Wagon Wheel. "What are we going to be producing or developing? I honestly don't know, but that's half the fun! That's what gets me up in the morning – to find what's going to be new out there."

The Kaeding family on their farm in Churchbridge, Saskatchewan: (left to right) Roger Kaeding, FCC Account Manager Becky Niessen, Carla Kaeding and Warren Kaeding.

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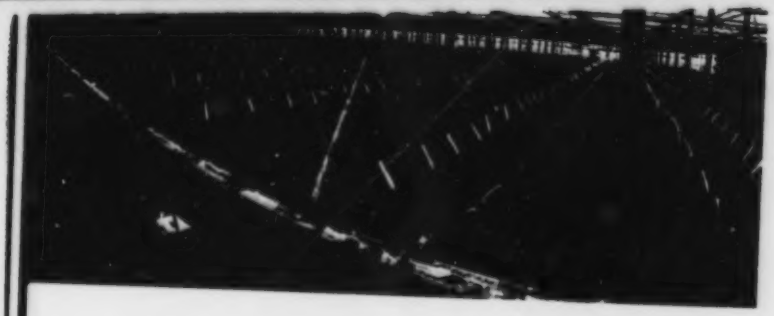


Growing greenhouse tomatoes is a family affair

As much as things have changed for Ontario greenhouse owner Tony Mucci, the fundamentals remain the same. Tony and his brother, Gino, and their families have built a family-run success story since opening their first greenhouse in 1967.

Back then, the humble, one-acre greenhouse wasn't much to look at but it gave the two brothers the start they needed. Today, Mucci's Greenhouse in Kingsville is one of the largest tomato operations in the province with nearly 30 acres and 80 employees. Mucci's specializes in two varieties of tomatoes and has recently added its own packing line.

For the two brothers, originally from Italy, the greenhouse represented a lot more stability compared to traditional outdoor farming. "We found greenhouses were the best because it was easier for us to control the variables," Tony explains.

Today, Mucci's resembles an active family reunion as much as a growing business. The brothers work alongside their wives, daughters and sons throughout the year – especially during the 17-hour workdays of summer.

"We're here all the time," Tony says. "We don't go too far. We do everything ourselves so we don't have a foreman or floor managers. You know, if you like your job, you don't care how many hours you put in."

The family's commitment to their business was one of the first things FCC Account Manager Gary Paling noticed when he met the Muccis in 1998. "This greenhouse has been their whole lives," Gary says. "They've invested so much of themselves into making the operation a success. It's just really nice to see a family-oriented business do so well."

Gary believes the frequent stops he makes at Mucci's give him a better appreciation for their vision. "I want to know their operation almost as well as they do. Whatever their vision is, I want to share it with them. Their goals are our goals."

"They've invested so much of themselves into making the operation a success. It's just really nice to see a family-oriented business do so well."

Lately, the Muccis' goals have involved expansion and technological improvements. This focus has paid off – plants that produced about 15 pounds of tomatoes when they first started now produce about 45 pounds.

The Muccis are proud of their operation and, although they're looking to expand, they're not going to tamper with the formula that has been producing top-quality tomatoes. "I think we'll stick with what we know best," Tony maintains. "I've learned a lot in 33 years and I still want to work with my family."

The Mucci family runs one of the largest tomato greenhouse operations in Ontario: (left to right) Gino Mucci, FCC Account Manager Gary Paling and Tony Mucci.

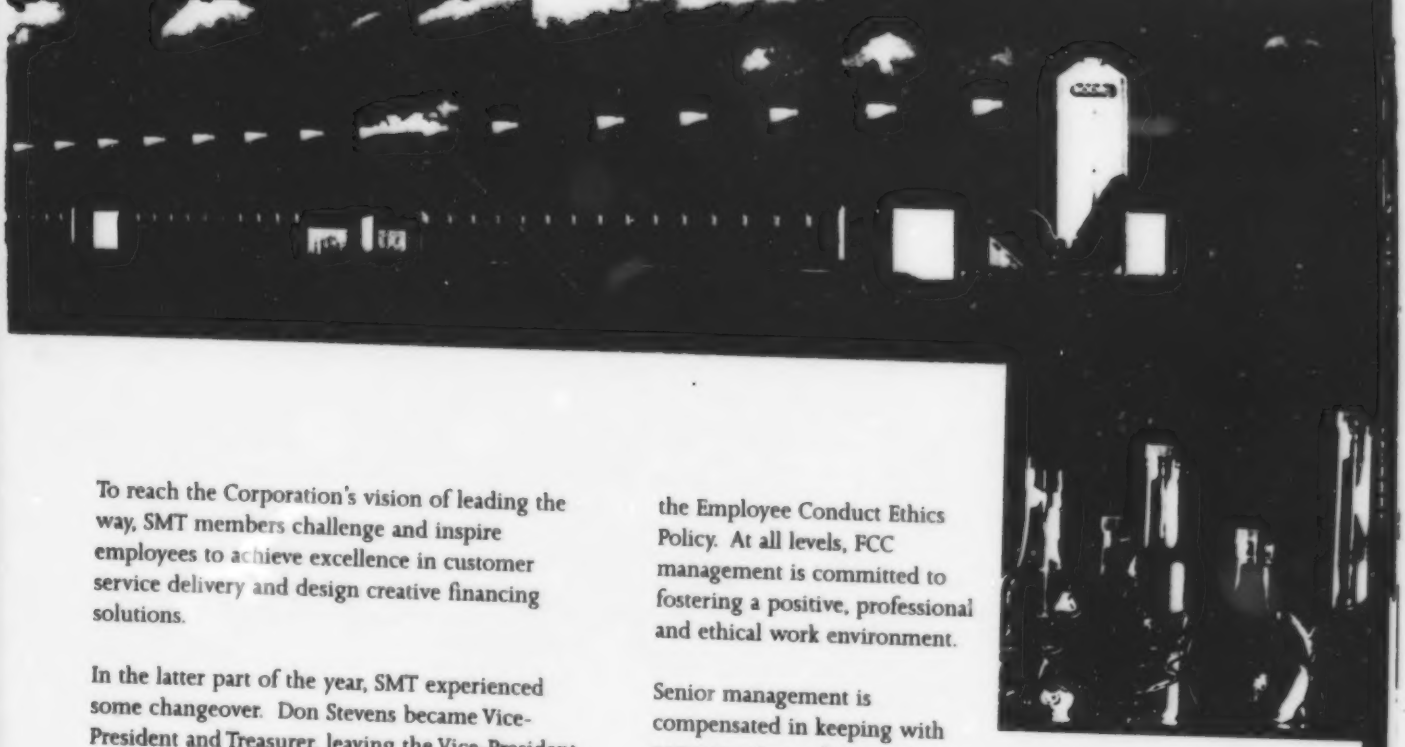
FCC's Senior Management Team

Challenge the Status Quo. Lead the Way.

FCC's Senior Management Team (SMT) is charged with executing the corporate strategy required to keep FCC vibrant and relevant for the agricultural industry into the future. Each member brings unique professional expertise and diverse views to the management table and lives by the credo that the Corporation's success depends on our customers' success. They share an unparalleled work ethic and commitment to customers and employees. Every member of this team is focused on maintaining our traditional commitment to agriculture while finding innovative ways to anticipate new customer needs and emerging markets.

From left to right:

Andre Tetreault, Vice-President, Corporate Audit and Business Process Reengineering
Don Stevens, Vice-President and Treasurer
Marshall Stachniak, Vice-President, Farm Financing and Western Operations
Moyez Somani, Executive Vice-President and Chief Financial Officer
Kellie Garrett, Vice-President, Communications and Public Relations
Dale Canham, Vice-President, General Counsel and Corporate Secretary
Linda Yeo, Vice-President, Information Technology
John J. Ryan, President and Chief Executive Officer
Janet Wightman, Vice-President, Agribusiness and Eastern Operations
Greg Stewart, Vice-President, Risk Management
Louise Neveu, Executive Vice-President and Chief Operating Officer
Terry Kremeniuk, Vice-President, Human Resources and Administration
Shelley Legin, Vice-President, Marketing and Product Development



To reach the Corporation's vision of leading the way, SMT members challenge and inspire employees to achieve excellence in customer service delivery and design creative financing solutions.

In the latter part of the year, SMT experienced some changeover. Don Stevens became Vice-President and Treasurer, leaving the Vice-President and Controller's position vacant. André Tétreault was promoted to Vice-President, Corporate Audit, adding Business Process Reengineering (BPR) to his responsibilities. Terry Kremeniuk was appointed Vice-President, Human Resources and Administration, and Janet Wightman was appointed Vice-President, Agribusiness.

The Corporation's success depends on our customers' success.

SMT members provide advice to the Chief Executive Officer on matters pertaining to the Corporation's direction. They are responsible for setting priorities, taking action and managing progress toward the achievement of corporate objectives.

Members are expected to act in good faith, exercise care, skill and diligence in accordance with the *Financial Administration Act*. They adhere to the highest ethical standards of business, professional and personal conduct, including avoidance of conflicts of interest as specified in the Employee Conduct Ethics Policy. At all levels, FCC management is committed to fostering a positive, professional and ethical work environment.

Senior management is compensated in keeping with compensation policies and scales approved by the Board of Directors. In 1999-2000, salary levels for the Chief Executive Officer position ranged from $163,800 to $204,800; Executive Vice-Presidents ranged from $128,260 to $189,340. Compensation for Vice-Presidents ranged from $104,410 to $138,200. All executives are paid within their respective ranges and receive a variable component linked to the performance of the Corporation, the business unit and the individual. Total cash compensation paid to SMT was $2,182,844. The Governor in Council sets salary and benefits of the CEO. All other compensation ranges are set by Corporate Policy and approved by the Board of Directors.

The Executive Committee, a subset of the full SMT, is comprised of the President and Chief Executive Officer; Executive Vice-President and Chief Operating Officer; Executive Vice-President and Chief Financial Officer; Vice-President, Agribusiness and Eastern Operations; Vice-President, Farm Financing and Western Operations; and Vice-President, Human Resources and Administration. Mandated to act on broad strategic direction and establish corporate priorities, the Executive Committee is the principal decision-making authority.

La Ferme Roulante: when dreams come true

They raise 650 head of Holstein cattle, 260 of which are dairy cows (160 in free-stall and 100 in conventional housing) that produce more than 11,500 kilograms of milk annually. Yves credits much of this accomplishment to the combined efforts of his family and staff. "Confidence, communication and respect for one another are key to the success of our team," he explains.

FCC Account Managers Sylvain Morel and Patrice Gagnon have teamed up to provide service to La Ferme Roulante. Sylvain has worked with Yves and Yolande since 1997. "Everyone who has worked with Yolande and Yves will tell you that they are able to push the limits of what is commonly done. They operate a very large and diverse farming operation and yet they do it in an environment-friendly manner, using state-of-the-art technology and storage facilities."

Patrice has worked with Yves and Yolande since 1998. He also speaks highly of their professional relationship: "We share a passion for agriculture and thirst for knowledge. Everything must meet La Ferme Roulante's very high and progressive standards. That is why they are respected within the community as leaders and advisers."

It was no surprise to see Yves, Yolande and the Ferme Roulante team chosen to represent Quebec at the national Outstanding Young Farmers competition in 1999. In Yves' own words, it was a "genuine honour" that confirmed the success of their operation. "It usually takes two generations to achieve something like this. FCC has believed in us since the beginning and thanks to their support, it took us only 15 years to get to where we are. And we are not done yet."

The ultimate goal for Yves and Yolande is to leave behind a valuable and solid legacy for their children. "If our children decide to follow in our footsteps some day, we want to leave them a financially sound business on which to build."

"We share a passion for agriculture and thirst for knowledge."

Yolande Perreault and Yves Roux of La Ferme Roulante in Tingwick, Quebec (pictured on adjacent page) were Quebec's Outstanding Young Farmers for 1999.

FCC Account Managers Sylvain Morel and Patrice Gagnon (left to right, directly across) provide support to a successful team.

Ferme
Roulan
TINGWICK
Yolande

A new school of thought in aquaculture

For Jail Island Aquaculture, the only thing better than growing fish is a growing business. The St. George, New Brunswick business is riding a rising wave of success in salmon farming.

One of the keys to success is a long-term approach to business, according to Lloyd Purdy, Jail Island's Managing Director. With the three years it takes to raise salmon from hatching to harvesting, Jail Island staff really get to know their fish.

"It always amazes chicken and pig farmers when we tell them how long we spend with our fish," Lloyd says with a laugh. Each fish spends 18 months in Jail Island's hatchery and another 18 months in giant cages in nearby Passamaquoddy Bay.

Jail Island is a medium-sized integrated aquaculture operation with grow sites in the St. Andrews, St. George and Grand Manan areas, a hatchery near Moncton and a processing plant in St. George. It produces about 2,000 tonnes of salmon per year and has been growing steadily. The business came together through the amalgamation of three companies – Jail Island Salmon, Crooked Creek Hatchery and White Head Salmon Farms.

For Lloyd, who originally started with Crooked Creek, the key to expansion has been commitment from all the shareholders. "All the original partners stayed in the business," he explains.

Financing was an important component to the expansion – something Lloyd says he has found difficult in the past when dealing with financial institutions that didn't understand aquaculture.

Fortunately, Lloyd says that's not a problem with Faith Matchett, FCC Account Manager in St. George. "Faith really knows our industry," Lloyd maintains. "She understands our business and we trust her judgment."

With more than 14 years of experience in financing and five years in aquaculture, Faith usually finds a lot to talk about with Lloyd. Lately, they've been working to ensure Jail Island has adequate financing in place to facilitate growth and future capital needs.

Lloyd believes one of the keys to success has been improvement in salmon rearing techniques. "When I started, people grew maybe 1,500 to 2,500 salmon in a wooden cage. Our new cages have a 100-metre circumference and will grow more than 40,000 fish."

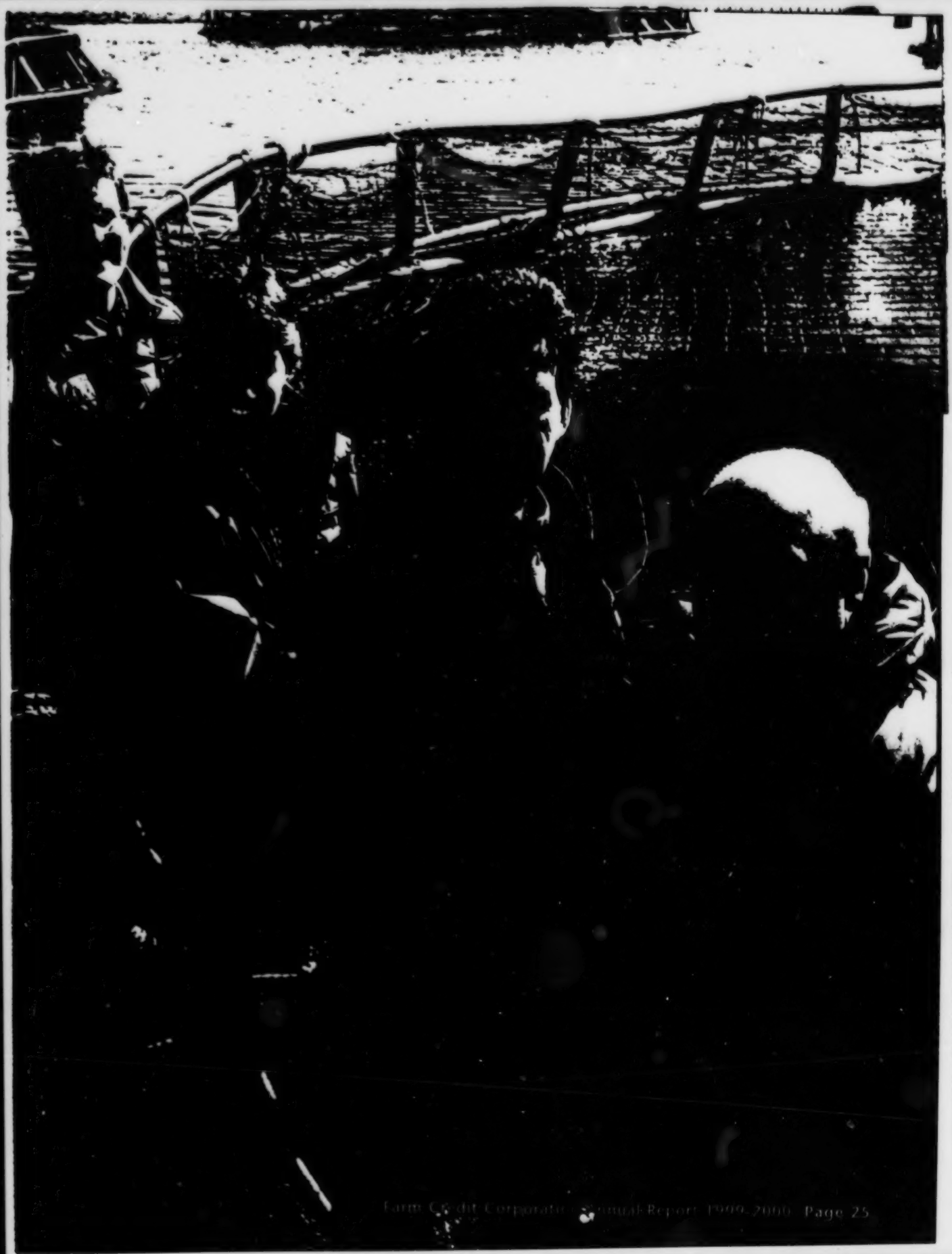
Like other Canadian aquaculture companies, Jail Island has been able to carve out a niche in the very competitive U.S. market.

"We succeed in this environment because we're able to deliver a quality product by truck, compared with our international competitors like Chile, Norway and Scotland, which have to deliver by air freight," Lloyd explains. "The short distance gives us superior quality and using trucks gives us a cost advantage."

With one of the largest markets in the world just a few kilometres south, the future looks bright for Jail Island's continued success.

Jail Island Aquaculture harvests top-quality salmon from New Brunswick's cold waters:

(left to right) FCC District Manager Bruno Soucy and Account Manager Faith Matchett, along with Jail Island's Lloyd Purdy and Mark Moore.



FCC Financing Solutions

Products and Services
to meet the changing needs of agriculture

Long Term
FCC provides fixed interest rate terms of up to 20 years and amortization periods between three and 29 years to provide long-term stable options for Canadian farmers. New this year are the 7+10 and 10+10 loans, which offer an annual 10 per cent prepayment of the original loan amount on seven and 10-year fixed terms to be applied directly to the principal not due, with no penalty at any anniversary date.

Personal Property
With no prepayment or processing fees, and monthly, quarterly and semi-annual payment options, the FCC Personal Property Loan is ideal for purchasing livestock, new and used equipment or quota. Terms range between two and seven years, and may be amortized up to 10 years with variable or fixed interest rate options available.

Variable Rate
FCC's Variable Rate Loan is for any agricultural or farm-related purpose, such as land, buildings, quota, equipment or livestock, which is secured by real or personal property. The loan gives the customer the flexibility to decide the right time to lock in for a longer term.

Farmbuilder Construction®
Financing for building projects is easier with this innovative product that provides interim financing for construction. The Farmbuilder Construction Loan applies to any type of construction project eligible for FCC financing. No payments are required during the first year and funds are disbursed as needed during the project.

AgriStart™
This innovative line of loans is designed to help families transfer farming operations from one generation to another as well as assist developing farmers in starting or expanding their operations.

The AgriStart Plan encompasses the following three products:

- The **Family Farm®** Loan enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business. Successfully launched in 1993, it has been updated and streamlined to increase flexibility and serve a wider market;
- The **1-2-3 Grow** Loan provides financing with deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years; and
- The **Payday** Loan is designed for individuals with off-farm employment who are interested in starting or expanding a farm business.

Plant Now – Pay Later
FCC understands that expanding a horticultural operation often results in a reduced income stream for the first few years. Customized to suit varying developmental phases, Plant Now – Pay Later Loans meet the needs of our vibrant fruit-growing industry, including soft fruits and berries.

One-Year Convertible
FCC's One-Year Convertible Loan provides the flexibility of short-term lending when rates are dropping, while allowing the borrower to switch, without penalty, to a longer term rate at any time should rates begin to rise.

Other Services

Land Sales and Leasing

FCC's property division, Agri-Land Sales & Leasing*, manages FCC's land holdings and provides farmland management services for owners and tenants.

Feeder Finance

FCC finances feeder livestock through several livestock business alliances as well as numerous feeder finance co-operatives across the country.

National Dealer Equipment Financing

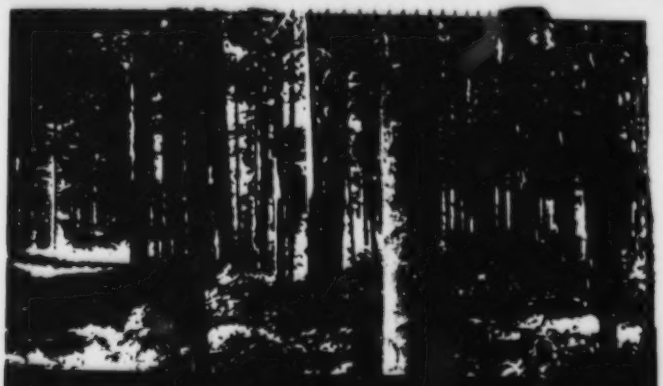
FCC has developed a national network of agricultural equipment dealers. The Corporation works with these dealers to provide a competitive alternative for financing new and used agricultural equipment to Canadian producers and agribusiness operators.

FCC/CULEASE Leasing

FCC and CULEASE Financial Services™ are working together to offer capital lease financing on new or used agricultural equipment through FCC's national dealer equipment network. The product was introduced to Western Canada in February 2000 and Ontario in April, with plans to expand to the rest of Canada in early 2001. This program allows customers access to needed equipment with minimal cash outlay.

Agricultural Value-Added

In co-operation with Western Economic Diversification and CIBC, FCC assists Western Canadian agricultural value-added firms in accessing debt capital.



Emerging Sector Services

Aquaculture

FCC offers financing options that support salmon, fresh water fish or shell fish operations. Our staff has the specialized knowledge to assist with financial requirements for expanding aquaculture businesses, including purchasing barges, cages, nets, smelt, feed, tanks, hatcheries, processing equipment, construction costs, land and site leasing.

Forestry

FCC offers specialized lending services for the forestry industry including loan products for buying forestry equipment, expanding existing forestry operations and buying land.

Investments

FCC Medium and Long-Term Notes

FCC's Medium and Long-Term Notes are issued daily at competitive market interest rates, for maturities ranging from one to 10 years. By purchasing these fully RRSP-eligible notes, investors have the opportunity to invest in Canadian agriculture. The notes are sold by investment dealers who act as agents for FCC. They are issued by FCC to raise capital used to support Canadian agriculture.

Lending a helping hand *in Communities*

In Davidson, Saskatchewan, Sandra Baldwin teaches a rural babysitting course sponsored in part by FCC.

FCC has a tradition of community commitment among its employees. For 40 years, we have been there through prosperity and hardship to help farmers and their families. Through our community relations activities, we have extended our relationships with farmers and agribusiness operators beyond business transactions. We have established partnerships within the communities we serve based on shared goals of improving quality of life and building a brighter future for those who live there.

As a member of the Canadian Centre for Philanthropy's Imagine program, FCC is committed to donating one per cent of pre-tax income annually to charitable and not-for-profit community organizations. FCC honours this commitment through the donation of financial resources, services and gifts-in-kind. The Corporation adds value to these donations by supporting employee efforts to volunteer their time and energy.

In addition to hundreds of local community initiatives, FCC works in partnership with national organizations dedicated to improving wellness in rural Canada and contributing to the agricultural community. Through our national community relations program, officially introduced in 1998, we have focused on activities that contribute to rural health and help shape the future leaders of agriculture in the decades to come.

For 40 years, we have been there through prosperity and hardship to help farmers and their families.

FCC is proud to support the following initiatives across Canada:

Canadian Young Farmers Forum (CYFF)
This national group of young and developing farmers exchanges ideas and fosters collaboration between young and future farmers of Canada. FCC is proud to support their work through a five-year partnership agreement.

"This partnership allows our members to contribute ideas towards FCC's future lending products," says Sean Gorill, CYFF Chair and a dairy farmer from Bulyea, Saskatchewan. "This input is important because we're FCC's future business partners and tomorrow's leaders in agriculture."

Canadian Coalition for Agricultural Safety and Rural Health (CCASRH)

Established in 1993, CCASRH addresses problems related to rural health including injuries, illness and accidental death among farmers and agricultural workers. FCC sponsors their annual conference and the Rural Kids babysitting course, produced in collaboration with the Canadian Agricultural Safety Program and the Canadian Federation of Agriculture.

"Partnerships are important because part of our mandate is to network and collaborate with other groups from across the country," says Cathy Vanstone, CCASRH Chair and a farmer in Portage la Prairie, Manitoba. "We value FCC's partnership because of their link to farmers across Canada."

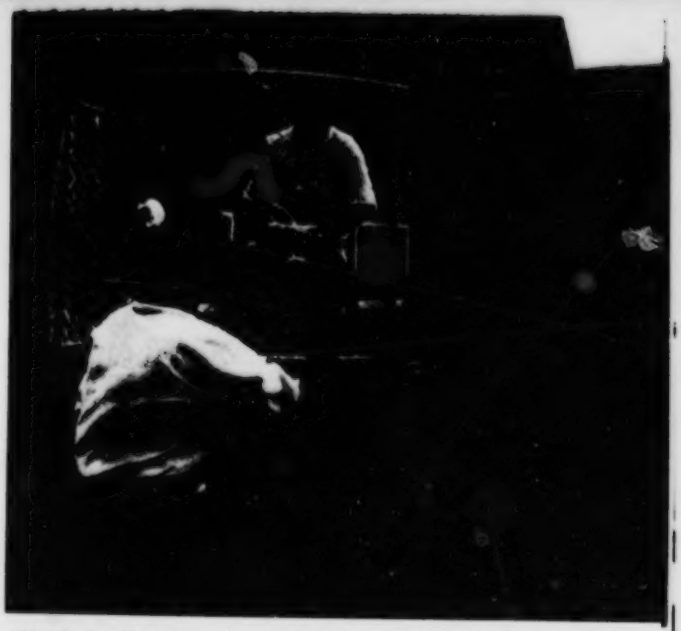
Canadian Farmers with Disabilities

This national, not-for-profit organization educates the public about farm safety and offers support to farm families who have experienced disabling accidents. In addition to providing monetary support, FCC worked in partnership with several organizations to produce the Farmer to Farmer educational video, with sales to benefit Farmers with Disabilities of Manitoba.

"FCC has been an excellent partner," says Neil Enns, Coordinator for Farmers with Disabilities of Manitoba and a farmer from Elm Creek. "FCC advertised our video so effectively that we're distributing it from coast to coast."

United Way

FCC's employees have a history of generosity to the United Way. FCC holds a six-week campaign. Employees are invited to make donations through payroll deductions and participate in fundraising activities. In 1999, Corporate Office raised $54,000 for United Way of Regina – the highest total ever – and received the 1999 Spirit Award for Overall Campaign Commitment in Regina. Across the country, FCC raised $91,000 – another record!



Abbotsford staff take turns in the dunk tank to raise funds for the Child Development Centre.

Lending a Helping Hand across Canada in 1999-2000

To FCC, community relations is more than a program, it's people helping people. Our employees have a reputation for reaching out to the communities they serve. The following examples show how employees across the country have gone out of their way to make a difference.

FCC makes a splash at Abbotsford Customer Appreciation Day

In August 1999, FCC customers Grace and Len Krahn, owners of Birchwood Dairy Farms Ltd. in Abbotsford, B.C., hosted FCC's inaugural Abbotsford Customer Appreciation Day. More than 400 local customers, family, media and prize sponsors shared in the day's festivities planned by FCC's Abbotsford field office.

FCC donated $500 in addition to funds raised from the day's activities to the Fraser Valley Child Development Centre, a not-for-profit organization that serves children with disabilities and their families.

Regina FCC team builds a giant egg from cans (above). Below, Ste-Foy staff serve soup to help a Québec City food bank.

Bringing agriculture into classrooms in Manitoba

Educating children about where their food comes from is the goal of Agriculture in the Classroom – Manitoba (AITC-M). This program provides teachers and their students with learning resources about agriculture that tell the story of how food is produced on the prairies.

In 1999, FCC began sponsoring this program in a new seminar called the Teacher's Summer Institute. Created through a partnership between FCC, AITCM and the University of Manitoba, the seminar will take teachers on farm tours in the summer of 2000.

"We're excited about supporting children through programs such as Agriculture in the Classroom," says Lucie Durand, FCC Office Assistant in Stonewall. "They're the next generation of producers."

Sp"egg"tacular – FCC raises funds for Regina food bank

In December 1999, FCC Corporate office staff participated in CANSTRUCTION, a community fundraising event held to raise funds for the Regina and District Food Bank. Participants were required to build structures completely out of canned and boxed foods. FCC and other community partners built an egg-like structure out of canned meat. In total, the event raised nearly $40,000 for the food bank.

A "souper" event

Every month, Moisson Québec provides food and goods to 25,000 people in the Québec City region. In 1998 alone, 150 local community groups received 1.7 million kilos of goods.

This food bank attempts to increase public awareness of poverty and hunger problems through a special annual event. Held at the Ste-Foy farmers' market, La Soupe Populaire offers bowls of soup to the public for one dollar apiece with proceeds to Moisson Québec.

During the September event, FCC staff from the Ste-Foy office in Quebec donated $5,000 and took turns serving soup prepared by the Loews Le Concorde restaurant, with vegetables donated by producers from the farmers' market.

Road to recovery

P.E.I. woman recovers from farm accident with support of community

On the morning of October 4, 1999, Lisa Getson of Kildare Capes, Prince Edward Island, was only a few days into her job on a potato farm when tragedy struck. She became entangled in a harvester and suffered extensive damage to her right arm, as well as her hip.

Lisa, 24 years old at the time, was sent to a Charlottetown hospital where she received several leg surgeries. She was eventually transferred to Halifax where doctors repaired her arm, which they were forced to amputate just below the elbow. On November 16th, she returned home.

While Lisa was healing, word on the Island quickly spread about her struggle. Marilyn Affleck, Farm Safety and Health Coordinator with the P.E.I. Federation of Agriculture, approached FCC about the young woman's situation, and our Atlantic Canada staff made a $1,000 donation to help cover Lisa's future medical expenses.

"Chances were that she would soon be requiring therapy and rehabilitation involving extensive travelling," says Annette Deveau, Market Analyst in Moncton. "In addition, we hoped that the money could help buy a prosthesis."

Annette also believed that FCC's support should not end with its monetary contribution. She approached Sylbert Rayner, the P.E.I. representative and Board member for Canadian Farmers With Disabilities. Sylbert, a farmer from West Devon, had lost his right arm five years ago in a farming accident similar to Lisa's and offered her moral support and encouragement.

Lisa has not taken FCC's contribution lightly. "It's great," she says. "I think it's amazing that there are people out there like FCC staff who are willing to reach out and help someone in my situation."

FCC employees in Walkerton, Ontario drive for charity.

Great Little Tractor Pull

Great big success!

For the second year in a row, lawn tractors in Ontario have never moved so fast!

The Great Little Tractor Pull, a fundraiser conceived by FCC, took place at the International Plowing Match near Dashwood, Ontario. Ten corporate, one FCC and two charity teams participated in this year's event.

Each team raced a mini-tractor around a track, stopping to load and unload potatoes using only one hand. Trophies were presented to teams with the fastest time, best costumes and the most bloopers.

"The event was fun for all participants and, best of all, raised $10,000 to help out two local charitable organizations – Phoenix of Huron and Rural Response for Healthy Children," says Corlette Elder, Account Manager in Walkerton.

Michael Schell moved from Career Edge to a staff position at FCC

FCC and Career Edge

Helping young Canadians start their careers

FCC offices across the country have benefited from the enthusiasm and talent of young Career Edge interns in the past few years. FCC has served as a host corporation for Career Edge, a national not-for-profit organization dedicated to providing work experience to young Canadians.

From 1998 to 2000, 39 Career Edge interns worked in FCC offices across the country, learning skills in customer relations, marketing, administration and human resources. Nine interns were offered regular employment at FCC and all of them gained valuable work experience.

"Working with Career Edge really helped me start my career," says Michael Schell, now an Administrative Clerk in FCC's Corporate Office in Regina. "It was a great learning experience to work with people here."

FCC's program is part of the federal government's Public Sector Youth Internship Program.

Celebrating the **spirit** of *agricultur*

From palette to palate

In October 1999, FCC, along with 23 community partners, unveiled a 104 by 20 foot mural "Celebrating the Spirit of Canadian Agriculture" on the occasion of the millennium and FCC's 40th anniversary. The mural covers two walls of the Army & Navy department store in downtown Regina.

Saskatchewan artist Germán Jaramillo-Mckenzie, commissioned to paint the mural, wanted to capture the spirit of Canadian agriculture past, present and future, as well as the full spectrum of products that make up this important industry.

"Farm Credit Corporation, our Regina corporate and community partners and Mr. Jaramillo-Mckenzie have come together to create a lasting portrayal of Canadian agriculture. This is truly a community effort," said FCC President and CEO John J. Ryan at the unveiling.

FCC's millennium mural in Regina by artist Germán Jaramillo-Mckenzie.

Agriculture. It's all we've ever done.

40 years of serving Canadian agriculture

Here are some highlights of the changing face of FCC from 1927 to today:

AGRICULTURE 40 FCC • 1959-1999 • SCA

1927 – The Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers.

1942 – The *Veteran's Land Administration Act* (VLA) was introduced to assist veterans of World War II to enter farming, providing the most important source of farm credit at the time.

1959 – The *Farm Credit Act* (FCA) was introduced and established FCC as a Crown corporation, with a statutory interest rate of five per cent and capital of $8 million.

"From the point of view of the long-term welfare of agriculture, I believe this is one of the most important Bills . . . considered by the Canadian parliament." (D. S. Harkness, Minister of Agriculture, on the passing of the FCA.)

1962 – Under the leadership of its first Chairman, Brigadier T.J. Rutherford (1959-1962), the Corporation's reputation for customer service and agricultural expertise began. Staff received intensive training courses in farm management, pre-loan counseling and high-risk loan supervision in order to improve advisory services to borrowers. Farmers received advice regarding equipment and livestock purchases, and farm planning and operations.

"The lending policy and income approach to value are not rule books but guides intended to assist you in the making of your decisions. They can only round out, never replace, the common sense experience and good judgment of the trained Farm Appraiser or Farm Credit Advisor." (Brigadier T.J. Rutherford)

- continued on page 37

AGRICULTURE 40

FCC • 1959-1999 • SCA

"Flexibility is the reason we have stayed with FCC for all of these years. They also have more farming knowledge and are willing to stay with you in the long run."

40th Anniversary Family Profile

A tradition of expertise and knowledge of agriculture

FCC has helped the Compton family of Bangor, Prince Edward Island, through three generations of expansion and growth to their potato operation.

Shortly after Benjamin Compton began farming with his son Henry in 1957, he took out an FCC loan for $2,500 to finance the purchase of the original 150 acres of land. In 1963, Henry built a home for his father with an FCC loan for $5,000. Two years later, Benjamin's other son Ralph became involved in the mixed family farm, completing a three-way partnership. In 1965, they built a potato warehouse on their land and, in 1971, a third son John joined in the operation.

Today Compton Bros. Inc. is run by a third generation – John's two sons, Grant and Stephen, and Henry's son, Donald. Their farming operation involves a three-year rotation of 650 acres of potatoes, 650 acres of barley and 650 acres of hay crop. They employ 17 people who package their tablestock potatoes under the *Island Traditions* label. Their enterprise also packages potatoes from local farmers.

"Flexibility is the reason we have stayed with FCC for all of these years. If you have a couple of poor market years, there's more flexibility with FCC. They also have more farming knowledge and are willing to stay with you in the long run," says Grant Compton.

Through four decades and three generations, the Comptons have grown their potato farming operation with the help of FCC: (left to right on adjacent page) Grant, Henry, Donald and Stephen Compton.

The Herrmann family of Newbrook, Alberta – growing with FCC since 1959: (left to right) Ronald, Leland, Ilke, Kim, Regan and Tyson.

"Our entire family finds this way of life a challenge. But it allows us to try new ideas that will hopefully work. Basically, we all like the fact that in farming we can work for ourselves and reap the rewards of our ideas."

40th Anniversary Family Profile

A legacy of trust and loyalty

Forty years ago, just after Farm Credit Corporation first opened its doors, Carl and Emma Herrmann borrowed money to establish their farm 105 kilometres northeast of Edmonton, near Newbrook, Alberta.

Four years later, in 1963, Carl's second son Ronald and wife Ilke applied for an FCC mortgage to buy all of the Herrmann's remaining land, totalling four-quarter sections. The young couple also borrowed money from FCC to build a feeding facility to expand their hog operation. At the time, $20,000 was the maximum loan amount, which they borrowed at a fixed rate of five per cent.

With the new facility, the couple increased their swine herd, enabling them to have a faster cash flow from their mixed hog-beef operation. "FCC was easy to deal with and we could get a longer lending term through them. The people at FCC are also very knowledgeable about agriculture and understand our needs," says Ilke.

Today, four decades later, the Herrmanns successfully operate a cow-calf feedlot operation. Ronald and Ilke's son Regan and his wife Kim are involved in the family business and hope to eventually take it over. Regan and Kim are also FCC customers who obtained their first loan in 1988 and bought two quarters of land, including the original quarter section his grandparents owned.

"Our entire family finds this way of life a challenge. But it allows us to try new ideas that will hopefully work. Basically, we all like the fact that in farming we can work for ourselves and reap the rewards of our ideas."

– **Highlights** *continued from page 33*

1963 – George Owen (1963-1974) was appointed Chairman and continued Rutherford's work to position FCC as the instrument to ensure agricultural success in Canada. FCC's first bilingual Chairman, Mr. Owen served during a period of important changes for FCC, including the first amendments to the FCA. He also initiated the idea of Appeal Boards to allow farmers a second hearing on rejected loan applications.

1965 – As farming expanded, FCC began to lend to a broader range of primary producers including those with off-farm employment or with secondary enterprises on their farms.

1968 – A key amendment to the Act introduced a market rate formula to enable the Corporation to cover the cost of its borrowing. Until that time, the statutory interest rate of five per cent as set out in the Act was in effect.

1970 – The Seventies began with declining land prices and net farm incomes and higher interest rates. To support farmers through this period, FCC requested more amendments to the FCA. Loan limits and capital were increased and the minimum age requirement of 21 years for applicants was dropped.

1976 – FCC's new chairman (1975-1977) Dr. Baldur Kristjanson created the Beginning Farmer Loan Program, aimed at helping borrowers under the age of 35 to phase into farming.

1977 – Under the leadership of Dr. Rolland Poirier (1977-1981), further amendments were made to increase loan limits and streamline administration operations to provide greater flexibility to borrowers. In 1978, for the first time since its inception in 1959, FCC realized a surplus on its operations.

1979 – As FCC celebrated its 20th year of operations, net farm incomes were increasing and the demand for credit growing. The amount of outstanding long-term credit increased eight-fold between 1962 and 1979, making it evident that farmers required increased access to financing capital to help the agricultural industry grow. Short and interim term credit also increased significantly. In 1979, the Corporation's average loan size was $110,298, compared to $7,500 in 1959.

1982 – The Eighties presented many challenges to farmers as particular commodities were hit by drought and volatile export markets. Chairman Eiliv H. Anderson (1982-1987) introduced new legislation to allow FCC to borrow funds on the financial markets. This provided FCC with a broader capital base to help finance Canadian farmers.

1985 – FCC played a key role in providing fixed-rate financing to Canadian farmers. Emphasis was placed on the development of lending programs that would reduce farmers' vulnerability to fluctuations in interest rates and changing economic conditions.

1989 – By the end of the decade, the agricultural industry was climbing out of the downturn and was back on the road to financial recovery. Under the leadership of Chairman James J. Hewitt (1987-1994), FCC's financial viability improved.

1992 – C. Gerald Penney (1992-1996) led the Corporation in serving a vibrant agricultural industry. FCC relocated its head office from Ottawa to Regina.

1993 – The 1993 *Farm Credit Corporation Act* (FCCA) provided FCC with increased flexibility to finance diversification, farmer-owned farm-related enterprises and larger-scale farms. The new Act enabled FCC to partner with other financial and agricultural institutions to better serve customers.

1994 – Alliances and partnerships with other government agencies, financial institutions and farm-related organizations offered new opportunities to enhance FCC's product line and services.

1997 – A new President and CEO, John J. Ryan, was appointed. Under his leadership, FCC established a new vision to be a leader in agricultural financing. This has led to customized financing packages and the launch of many new and innovative solutions to meet the unique needs of Canadian farmers.

The Dawn of a New Century

We begin this new century with the same focus we began with 40 years ago: 100 per cent focused on agriculture. We're proud of our accomplishments but there is no standing still. We must build on our success and keep moving forward providing the financial options our customers need and want. Ultimately, the success of FCC is determined by the success of our customers, the Canadian farmer and agribusiness operator.

Management Discussion and Analysis

Operating Environment

Grow knowledge. Cultivate markets. Harness technology. Harvest results.

These are the new rules of agriculture in the 21st century where the products of knowledge are just as important as products harvested from the field.

It's a whole different agricultural marketplace than the one that existed when Farm Credit Corporation first opened its doors in 1959. In the past few decades, Canadian agriculture has evolved into a complex industry where farmers and agribusiness operators must combine a passion for agriculture with technical expertise, market savvy and the drive to compete.

New crops and livestock, technological breakthroughs and changing business structures have transformed the industry. The boundaries of traditional agriculture have been redefined by increased diversification and the growth of the agribusiness sector. And the power of the consumer has been felt by all. Their desire for variety, freshness and nutrition is driving growth in key markets.

This is the business environment that our customers live and breathe each day. Producers and agribusiness are being challenged like never before to expand their mindset beyond their own operations to the worlds of international business, finance and commodity markets. They expect their financial partners to facilitate this search for knowledge and expertise. That's why FCC works diligently to keep in tune with the agricultural marketplace – and the shape of the industry today and in the future. Here are some of the key trends our customers faced in 1999-2000:

Producers feel the pull of international markets

Last year sent a clear message on the impact of international commodity markets on the individual Canadian farm. While farmers in many sectors saw an increase in commodity prices, others struggled with record low receipts for their commodities.

Growth and optimism were strong in several sectors. Horticulture, worth more than $3.5 billion in annual sales, continued to expand and the Canadian beef industry sold a record $2.7 billion in exports from January to December 1999. The supply-managed sectors, such as poultry and dairy, also benefited from steady prices. On the other hand, grain producers found themselves at the bottom of the international commodity price cycle while hog producers were in the first stages of recovery.

The intense public attention focused on the agricultural downturn in these sectors reminded Canadians about agriculture's important role in the national economy and our everyday lives. The agri-food industry contributes 8.4 per cent of the country's gross domestic product and employs two million Canadians.

Reaching our export potential

In 1999, Canadian farmers and agribusiness operators sold $22 billion worth of goods in the international marketplace. Canada's target for 2005 is $40 billion, as set by the Canadian Agri-Food Marketing Council (CAMC). Reaching this target will require a substantial investment in capital. In fact, according to CAMC, the industry must double investment in the primary sector and triple it in the processing sector in order to reach this export target.

FCC plans to partner with producers and others in the agricultural and financial industries to help reach this goal.

Impact of demographics on the family farm

Demographic trends will change the face of agriculture. About half of Canadian family farms are expected to change hands over the next decade. The new generation will directly influence the future of agriculture in Canada with its knowledge and vision.

To successfully transfer the family farm, Canadian producers are looking for new financial options and services. The challenge is to provide sufficient retirement income to the previous generation without over-burdening new producers as they take over the reins of the family operation.

The continued success of FCC's AgriStart product line indicates that we have found a unique way to provide young producers with the financial options they need to take over and expand the family farm.

Expanding across the agricultural value chain

The links in the agri-food chain grew even stronger and more integrated in 1999-2000. Supplier, producer and processor worked together to build infrastructure, extend market reach and share risk and profit. This trend is expected to continue throughout the new decade.

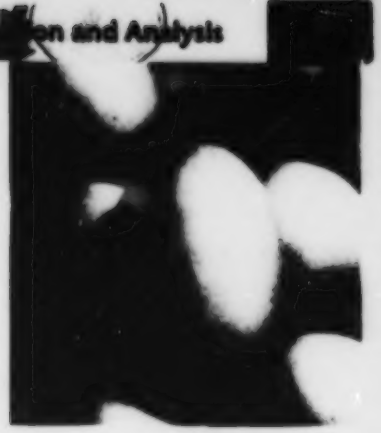
While the agribusiness industry is consolidating at an international level, niche market opportunities are opening for rural communities across Canada. More producers and businesses are partnering to launch agribusiness enterprises on the input and output sides of primary production. The result will be more jobs and economic growth in rural communities. On the prairies, food industry employment grew by 14 per cent from 1986 to 1996 in rural communities, according to an Agriculture and Agri-Food Canada study.

Agribusiness enterprises typically need large amounts of startup capital. To share the risk and build a larger capital base, many producers are joining forces to start co-operative ventures, including new generation co-operatives or other alliance partnerships.

FCC has provided financing to agribusiness operators since 1996. Through partnerships and alliances with other financial institutions and agricultural organizations, we are expanding access to capital to help finance agribusiness growth.

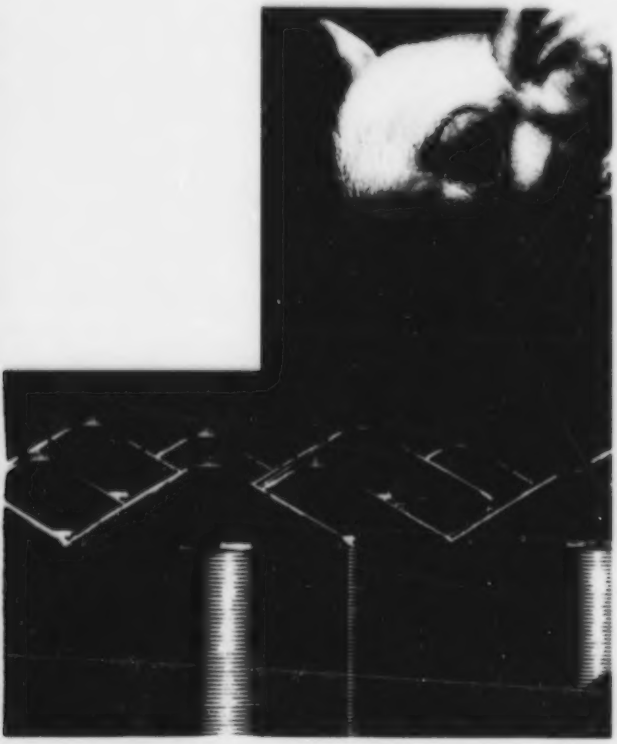
Financing the future

Globalization and changing technology have impacted the financial services industry as much as agriculture. Insurance and mutual fund companies, investment banks and lease financing firms are now part of the industry. As well, an increasing number of equipment dealers and agricultural suppliers are offering financing to producers.



The financial services industry is exploring new services, partnerships and delivery channels. Canadians have the option of negotiating a mortgage or buying stocks on the Internet. At the beginning of 2000, 57 per cent of rural Canadians were online, compared to 34 per cent two years ago. Soon, most producers will be surfing for service on the Net.

What is the impact on FCC customers? More primary producers and agribusiness operators will seek a variety of financial options to fit their business needs. They will source financing through a variety of channels including lender alliances, equity capital providers or share offerings. Much of their research and even some transactions will be done through the Internet.



FCC will continue to anticipate customer needs in financing solutions and delivery channels. In some cases, we will seek out alliance partners in order to lead the way in offering new services, such as our alliance with CULEASE Financial Services to offer lease financing. At the same time, we will maintain our commitment to rural Canada by offering face-to-face service through our network of offices in 100 rural communities.

A whole new world

Today's agricultural producers and agribusiness operators need every tool at their disposal to make the business decisions necessary to achieve their future goals. A complex marketplace requires complex solutions, including financial ones.

FCC employees will continue to keep their eyes trained on innovations and new trends in agriculture with one goal in mind: helping customers convert knowledge to business success. We look forward to providing fresh financial solutions to help existing customers compete in a fast-paced international market, just as we look forward to serving the needs of a new generation of agricultural entrepreneurs who will lead us into the 21st century.

Financial Performance

Key Financial Results

$ millions	2000	1999
Total loans receivable	6,303.8	5,843.4
Portfolio growth rate	7.9 %	9.9 %
Loan approvals	1,611.6	1,617.4
Loan renewal rate	94 %	96 %
Arrears	35.1	31.8
Net interest income	154.4	146.3
Net interest margin	2.37 %	2.42 %
Administration expenses	90.8	90.1
Net income	38.4	42.6
Efficiency ratio	56.8 %	57.7 %
Return on equity	6.3 %	7.5 %
Return on assets	0.60 %	0.72 %
Debt-to-equity	9.5:1	9.3:1

1999-2000 Highlights

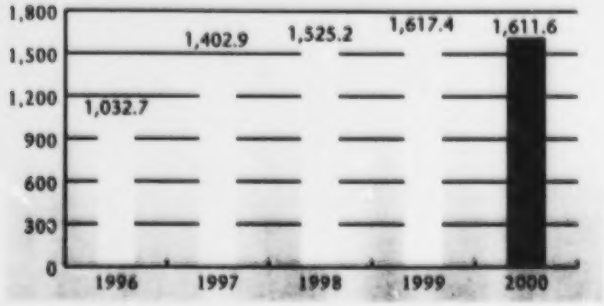
- 1999-2000 was the seventh consecutive year of portfolio growth, with the total loans receivable balance up $460.4 million or 7.9 per cent.
- Net interest margin was 2.37 per cent, slightly lower than last year's margin of 2.42 per cent.
- Administration expenses of $90.8 million were consistent with last year's total of $90.1 million. The efficiency ratio of 56.8 per cent was an improvement over the previous year's results of 57.7 per cent.
- Net income at March 31, 2000 was $38.4 million, down from $42.6 million in the previous year.
- Return on equity was 6.3 per cent, a decrease from the 7.5 per cent recorded the previous year.
- The debt-to-equity ratio of 9.5:1 was a slight increase from the previous year's 9.3:1 ratio.

Geographic Distribution – Loans Receivable Portfolio

	2000		1999	
	Number of Loans	Amount ($ millions)	Number of Loans	Amount ($ millions)
British Columbia	1,926	$ 280.8	1,877	$ 250.1
Alberta	10,265	978.0	9,327	860.6
Saskatchewan	24,205	1,286.1	23,620	1,250.4
Manitoba	7,539	587.5	7,895	549.9
Ontario	17,247	1,913.0	17,220	1,753.7
Quebec	8,368	848.2	8,378	810.4
New Brunswick	1,729	161.7	1,774	150.1
Nova Scotia	1,012	105.6	863	87.1
Prince Edward Island	1,170	114.6	1,116	104.3
Newfoundland	225	28.3	241	26.8
National	73,686	6,303.8	72,311	5,843.4
Allowance for credit losses		249.7		214.2
Loans receivable, net of allowance for credit losses	73,686	$ 6,054.1	72,311	$ 5,629.2

At March 31, 2000, the Corporation's total loans receivable portfolio was comprised of approximately 43,700 customers for a total of $6,303.8 million, exceeding the previous year balance of $5,843.4 million. This represents a growth rate of 7.9 per cent, compared to the previous year's growth rate of 9.9 per cent.

Loans Approved ($ millions)



Current Year Lending by Enterprise

- Cash Crops 29%
- Dairy 24%
- Beef 19%
- Value Added 7%
- Hogs 7%
- Poultry 5%
- Special Traditional 4%
- Other 5%

Special Traditional includes bee-keeping, fur-bearing animals, Pregnant Mare Urine (P.M.U.), horses, vermiculture and aquaculture

Other includes sheep, maple syrup, mixed enterprises and other income sources

Lending Activity

Lending volume in 1999-2000 remained stable, with 14,201 new loan applications approved in the amount of $1.6 billion compared to 14,880 loans and $1.6 billion respectively in 1998-99. The average loan size increased to $113,500 from $108,700 in 1998-99.

Primary Production

Primary production is defined as farming that produces raw commodities, e.g. crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock.

Lending volume in primary production continued to account for over 90 per cent of FCC's loan approvals. The five major enterprises within primary production are cash crops, dairy, beef, hogs and poultry. Of these, lending volume increased in dairy and beef and decreased in the other three enterprises compared to the previous year.

A total of 13,985 loans for $1.5 billion were approved for primary production in 1999-2000 (10,747 loans in direct lending for $1.3 billion and 3,238 loans through alliances for $190.6 million). This compares to 14,693 loans approved for $1.5 billion in the previous year (11,676 loans were made directly to primary production for $1.3 billion and 3,017 loans amounting to $174.1 million were made through alliances).

Agribusiness

Agribusiness includes businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

As more Canadian producers continue to expand into value-added production, growth in agribusiness enterprises is occurring in several key sectors. These include fruit, vegetable, specialty crop and dairy processing, grain handling and transportation, seed, feed and fertilizer suppliers and emerging sectors such as organics and nutraceuticals. Growth in agribusiness resulted in the Corporation providing more financing solutions during the year to meet the evolving needs of these customers.

In 1999-2000, 216 agribusiness loans totaling $146.2 million were approved, compared to 187 loans and $151.9 million in the previous year.

While the number of agribusiness loans increased in the current year, the average loan size decreased to $676,900 from $812,300 in 1998-99.

Alliances

Alliances are relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services to primary producers and agribusiness.

In addition to partnerships with customers, FCC maintains alliances with equipment dealers, livestock brokers and input suppliers, as well as financial institutions, to offer more extensive services to customers. A new alliance with CULEASE Financial Services, launched in February 2000, allows FCC to provide a lease financing option to customers.

Current year lending through alliances accounted for 3,238 loans in the amount of $190.6 million, compared to previous year totals of 3,017 loans and $174.1 million. Virtually all alliance lending relates to primary production.

Outlook 2001: *While some sectors of the agricultural industry are performing well, others continue to experience low commodity prices and increased costs. Because of this, Farm Credit Corporation is cautiously optimistic, anticipating slower portfolio growth in 2000-01 than the trend noted in the past five years.*

Net Income

Net income for the year ended March 31, 2000, was $38.4 million, a decrease from $42.6 million in the previous year. This decrease is largely attributable to an increase in the provision for credit losses, which more than offsets a combined increase of $16.4 million in net interest and net lease and real estate income.

Net Interest Income and Margin

Net interest income is the difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings. Net interest margin is net interest income expressed as a percentage of average total assets.

Net interest income was up slightly this year to $154.4 million from $146.3 million in the prior year. This increase is primarily attributable to portfolio growth of $460.4 million during the year.

At March 31, 2000, the net interest margin was 2.37 per cent compared to 2.42 per cent in the previous year. This decrease is mainly due to rising impaired loan balances.

Net Interest Income and Margin

$ millions	2000	1999
Interest income		
Loans receivable	$ 470.2	$ 442.3
Investments	25.3	25.9
	495.5	468.2
Interest expense		
Short-term debt	58.4	50.0
Long-term debt	282.7	271.9
	341.1	321.9
Net interest income	$ 154.4	$ 146.3
Average total assets	$ 6,513.5	$ 6,039.1
Net interest margin	2.37 %	2.42 %
Year-over-year change in net interest income due to:		
Increase in volume	$ 14.2	$ 20.1
Decrease in margins	(6.1)	(7.9)
	$ 8.1	$ 12.2

Provision for Credit Losses

The provision for credit losses is a charge to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management (described further in note 2(c) of the financial statements).

The provision for credit losses in fiscal 1999-2000 was $52.7 million, up from the $33.2 million recorded the previous year. Increases in impaired loan balances, portfolio size, loan write-offs and the proportion of loans in sectors experiencing difficulties also influence the level of the provision for the year.

Outlook 2001: *Moderate net interest income growth is expected in 2000-01 reflecting anticipated slower portfolio growth. Although provisions for credit losses are expected to decline, depressed commodity prices in certain sectors may adversely affect customer repayment capacity.*

Net Lease and Real Estate Income

Net lease and real estate income includes revenue related to leases and sales of property, less related operating and interest expenses.

Net lease and real estate income was $23.0 million in 1999-2000 compared to $14.7 million in the previous year. This increase is a result of properties being sold as leases expired and represents recovery of substantial write-downs incurred in previous years. Due to the expiration of 68 per cent of Agri-Land's six-year leases during this fiscal year, 39.4 per cent of the balance of land held at the beginning of the year has now been sold.

FCC continues to fulfill its mandate of leasing and eventually returning land to the former owners where feasible. The Corporation transferred 248,772 acres of land totaling $64.8 million to farmers this year, compared to sales of 123,855 acres totaling $32.7 million in 1998-99.

As of March 31, 2000, 55 per cent of FCC-held land was leased, versus 96 per cent in 1998-99. Approximately 99.6 per cent of this land was leased to former owners.

AGRI-LAND PROPERTY HOLDINGS

Total Acres	2000	1999
British Columbia	433	433
Alberta	2,687	6,193
Saskatchewan	341,780	566,762
Manitoba	12,619	28,407
Ontario	1,116	1,957
Quebec	1,354	–
New Brunswick	–	–
Nova Scotia	295	302
Newfoundland	–	–
National	**360,284**	**604,054**

Outlook 2001: *Farm Credit Corporation expects to sell most of its property holdings over the next two years. This target is driven by FCC's desire to return real estate to the primary producer as long-term leases expire.*

Other Income

Other income is comprised mainly of appraisal, insurance and other service fees.

In 1999-2000, other income was $6.4 million, slightly lower than last year's result of $7.1 million.

Administration Expenses and Efficiency Ratio

The efficiency ratio is administrative expenses as a percentage of income before recovery on real estate and provision for credit losses.

ADMINISTRATION EXPENSES AND EFFICIENCY RATIO

$ millions	2000	1999
Personnel expenses	$ 54.7	$ 54.8
Professional service fees	6.7	5.3
Staff development and travel	8.6	8.1
Telecommunications	3.6	3.4
Facilities and equipment	16.6	16.9
Other	0.6	1.6
Total administrative expenses	**$ 90.8**	**$ 90.1**
Efficiency ratio	**56.8 %**	**57.7%**

Administration expenses were $90.8 million, compared to $90.1 million in fiscal 1998-99. One way FCC evaluates performance is through the use of the efficiency ratio, which represents the expenses incurred to earn one dollar of revenue. A lower ratio indicates improved efficiency. At March 31, 2000, FCC's efficiency ratio was 56.8 per cent, an improvement from last year's ratio of 57.7.

Outlook 2001: *FCC will continue to enhance financial and service delivery options for customers while maintaining an efficiency ratio of 57 percent in 2000-01. This will be achieved through continued process improvement and increased efficiencies.*

Income Taxes

Income taxes represent corporate income taxes under Part I and capital taxes under Part I.3 of the Income Tax Act.

In the current year, income tax expense was $1.9 million, down from $2.2 million in the previous year.

Outlook 2001: *The Corporation will be required to adopt changes in the accounting standards for the recognition, presentation and disclosure of income tax amounts. This change will result in an increase to the Corporation's income tax expense in future years.*

Key Financial Ratios

Return on Equity (ROE)

Return on equity is the ratio of net income to average equity.

FCC manages ROE in order to achieve an appropriate return while taking into consideration the various risks associated with business activities and the Corporation's mission. ROE was 6.3 per cent for the year ending March 31, 2000, compared to 7.5 per cent experienced the year before. This decline is a direct result of an increase in the provision for credit losses recorded by the Corporation.

Return on Assets (ROA)

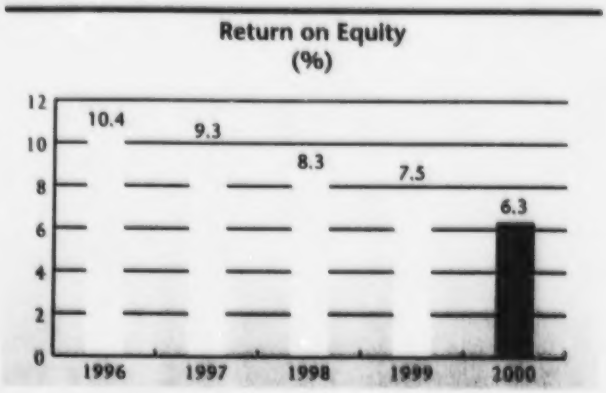
Return on assets is the ratio of net income to average total assets.

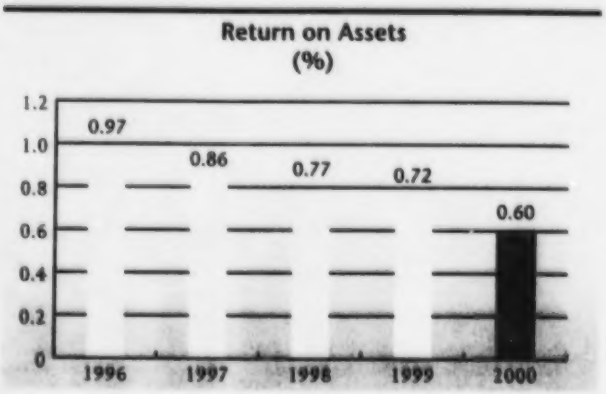
Return on assets was 0.60 per cent, while the previous year's ratio was 0.72 per cent. This year's decline was the result of an increase in the provision for credit losses.

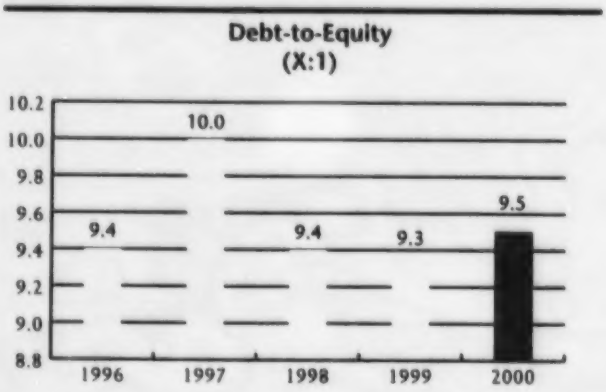
Debt-to-Equity

Debt-to-equity is the ratio of total debt to total equity.

The debt-to-equity ratio was 9.5:1 at March 31, 2000, compared to 9.3:1 the previous year. The increase in debt incurred to support FCC's portfolio growth was greater than the moderate increase in equity. The ratio remains well below the legislated maximum of 12.0:1.







Outlook 2001: *ROE and ROA are expected to improve marginally in 2000-01 as the portfolio grows and the provision for credit losses declines. Debt-to-equity is expected to improve slightly as equity growth proportionately exceeds the growth in debt required to support anticipated slower portfolio growth.*

Risk Management

Sound risk management policies and practices ensure that FCC responds appropriately to challenges in the operating environment. An Integrated Risk Management project was established in 1999-2000 to guide the identification, monitoring and assessment of significant risks that could impact FCC's business objectives. This project will serve as the basis for risk management policies, processes and controls to maximize results and value to both customers and stakeholders.

Inherent in the operation of a financial service institution are significant risks relating to credit, interest rates and liquidity. Responsibility for credit risk rests primarily with the Risk Management division which includes Portfolio Management. Interest rate and liquidity risk management are the responsibility of Treasury. Treasury reports monthly on performance and adherence to risk management directives to the Asset/Liability Committee (ALCO), chaired by the President and CEO, and quarterly to the Board. Portfolio Management also reports monthly to ALCO on risks in the loan portfolio.

Credit Risk

Credit risk is the risk of financial loss occurring as a result of a default on obligations to the Corporation.

With the continued pressure of historically low commodity prices in the grain and oilseed sectors, the level of credit risk in these significant portions of FCC's portfolio is increasing. In contrast, FCC is experiencing an increased demand for financial services from the value-added sector as producers diversify and expand their operations. To continue to ensure FCC's ability to meet the future needs of the agricultural industry, the right people, policies and technology must be in place to properly manage credit risk.

To enhance employee skills in credit risk identification, management and mitigation, FCC introduced a credit certification program for all staff involved in loan sourcing, analysis and approval. Staff who approve complex and large credit submissions received enhanced training and certification delivered by external commercial credit experts to ensure industry best practices are achieved.

A comprehensive credit policy review and update were completed in 1999-2000. This review encompassed all stages of the loan life cycle from inception to account management to retirement and, where appropriate, included separate credit risk policies for FCC's traditional farm finance business versus the agribusiness portfolio.

FCC continues to develop and implement current portfolio risk management techniques. Credit scoring, concentration management modeling and loan pricing practices that ensure proper compensation for estimated credit risk are all integral to FCC's credit risk management. Staff use economic research of trends in each agricultural sector and commodity price forecasts to identify portfolio risk. In addition, FCC enhanced quantitative modeling techniques for estimating loan losses, risk ratings and stress test impacts on portfolio health in the 1999-2000 fiscal year.

Sound credit risk management practices are only one ingredient in the performance of the loan portfolio, which is subject to external influences such as adverse weather, commodity price trends and regulatory changes. Total arrears, defined as principal and interest payments past due, were $35.1 million at March 31, 2000, significantly lower than the estimated $70 million allowed in the corporate plan although up from $31.8 million the year prior. This increase in arrears levels was concentrated in the grain and oilseed sectors mainly in the prairies, where FCC staff worked with customers to help mitigate repayment difficulties with flexible payment schedules or debt restructuring. Nationally, customer repayment performance remained consistent with the favorable results of the previous year.

Outlook 2001: *Farm Credit Corporation will continue to strengthen its credit risk management practices in order to best manage the risks of the portfolio.*

Allowance for Credit Losses

Allowance for credit losses is management's best estimate of credit losses on the loans receivable portfolio (described further in note 2(c) to the financial statements).

The allowance is comprised of:

- A specific component, to value impaired loans at the lower of their recorded investment or their estimated realizable amount; and
- A general component in respect of loans for which impairment has not been specifically identified.

At March 31, 2000, the allowance for credit losses was $249.7 million (specific – $52.2 million, general – $197.5 million), an increase of $35.6 million or 16.6 per cent from the previous year's $214.2 million (specific – $42.2 million, general – $172.0 million). The increase is attributable to the potential impact on customer repayment capacity due to continued low commodity prices in the grains and oilseeds sectors, a $38.3 million increase in impaired loans, as well as the overall level of portfolio growth.

ARREARS AS A % OF LOANS RECEIVABLE BY ENTERPRISE

	2000		1999	
	Total Loans Receivable ($ millions)	Arrears as a % of Loans Receivable	Total Loans Receivable ($ millions)	Arrears as a % of Loans Receivable
Cash crops	$ 2,623.3	0.8	$ 2,533.7	0.7
Dairy	1,368.5	0.1	1,295.6	0.1
Beef	639.1	0.6	554.5	0.8
Hogs	514.8	0.4	477.0	0.6
Poultry	350.6	0.1	329.8	0.1
Value added	268.3	0.6	191.1	0.5
Special traditional	237.2	1.0	205.5	0.7
Other enterprises	302.0	0.7	256.2	0.7
National	$ 6,303.8	0.6	$ 5,843.4	0.5

Environmental Risk

Awareness of environmental issues such as proper waste management and disposal on farms has increased over the past decade. As a Crown Corporation and a good corporate citizen, FCC is expected to operate within the spirit and intent of the federal government's own environmental policies, such as the Green Plan launched in 1990, by supporting sustainable agriculture and environmental protection.

Ensuring that all of FCC's new real estate secured loans address and mitigate environmental risk remains a high priority. All requests for new mortgage loans must have environmental assessment forms completed prior to approval.

Market Risk Management Framework

FCC manages exposure to market risk (interest rate and foreign exchange risk) with limits developed in consultation with the federal Department of Finance and approved by the Corporation's Board of Directors. Market risk management policies are approved by FCC's Asset/Liability Committee (ALCO) and the Board of Directors. The Treasury division is responsible for implementing market risk management directives.

The Treasury division manages operations using sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division finances the Corporation, ensuring liquidity, and manages market risk exposures.

Liquidity Risk

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The Corporation's objective is to maintain sufficient funds to meet customer and business operational requirements. To manage liquidity risk, FCC maintains a liquid investment portfolio ($364.3 million as at March 31, 2000) and a stable and diversified funding base to raise the funds to meet ongoing business requirements. FCC also has in place the necessary financing lines to cover contingencies.

Funding

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium & Long-Term Note Program (MTN);
- Euro Commercial Paper Program; and
- Euro Medium-Term Note Program (EMTN).

Short-term Funding

As at March 31, 2000, outstanding short-term borrowings were $1.0 billion, compared to $1.1 billion as at March 31, 1999. The decrease is attributable to a smaller portion of short-term debt supporting the liquidity portfolio in 2000.

Medium and Long-term Funding

During 1999-2000, FCC borrowed a total of $1.1 billion in medium and long-term funds, down from $1.5 billion in 1998-99. The decrease is due to lower levels of debt maturing in the year. In 1999-2000, $1.0 billion of MTN's were issued in the domestic bond market using a combination of retail, institutional and structured notes. FCC also issued $100 million in the EMTN market, down from $250 million in 1998-99.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. As a sovereign borrower, FCC's credit ratings are AAA for debt denominated in Canadian dollars and AA+ for foreign currency debt.

Asset/Liability Management

FCC is exposed to interest rate risk (IRR) as a result of a mismatch or gap between assets, liabilities and off-balance-sheet instruments because of different renewal and/or re-pricing dates. Exposure to these risks is monitored and managed to ensure that there will be no material adverse impact on FCC's earnings and capital value.

In order to eliminate foreign exchange risk, all foreign currency borrowings are fully hedged at issuance.

The Treasury division uses derivative financial instruments, primarily swaps and options, to manage interest rate and foreign exchange risk arising from funding activities. The division manages credit risk associated with derivative financial instruments using the 'dollars-at-risk' methodology. Derivative counterparty positions and credit risk exposures are monitored, managed and regularly reported to ALCO and the Board of Directors.

FCC manages IRR exposures with an asset/liability model. The model simulates changes in Net Interest Income (NII) and Market Value Portfolio Equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 2000, an immediate two per cent decrease in interest rates across all maturities would reduce NII by $4.4 million, or 2.7 per cent over the next 12 months. Assuming an immediate and sustained two per cent decrease in interest rates, MVPE at March 31, 2000, would have increased by approximately $25.4 million. Both NII and MVPE variances are within limits approved by FCC's Board of Directors.

Outlook 2001: *FCC will continue to fund the bulk of its requirements in the domestic market.*

MARKET SENSITIVITY

$ millions	2% Increase	2% Decrease
Net interest income variability	$ 4.6	$ (4.4)
Economic Value (MVPE) variability	$ (24.0)	$ 25.4

Business Continuity

While not directly linked to the economic or operational environment, threats to business continuity must be addressed as part of the overall risk management strategy.

This past year, in conjunction with the Year 2000 project, FCC reviewed its core business activities to determine the potential impact of a serious disaster and to identify the functions necessary to respond appropriately to the situation. FCC incorporated the resulting response procedures into a business continuity plan which was thoroughly tested by staff. This plan ensures that, in the event of a disaster or other disruptive event, the Corporation's core operations would continue with minimal disruption of service to customers while ensuring that staff are accounted for and protected, and corporate and customer assets are safeguarded. This business continuity plan will be revisited on a regular basis so it remains current and relevant.

Year 2000

In anticipation of the new millennium, FCC developed an action plan to ensure a smooth transition to the Year 2000. Business continuity and operational plans were successfully implemented in advance of December 31, 1999, without service interruption to customers.

Although the Corporation's systems have continued to be operational in 2000, it is too early to conclude that all Year 2000 issues affecting the Corporation, including those related to other parties, have been fully resolved.

Outlook 2000-01

Overall farm income is expected to remain stable in the coming years. However, a modest increase in total farm cash receipts will likely be offset by forecasts of continued lower prices for the grain and oilseed sectors. Realized net income for producers in these sectors will follow a similar trend.

Despite the challenges faced in some sectors, producers and agribusiness are motivated and positioned for growth. As producers prepare to meet the challenges of the next century, key issues are access to capital, lenders who understand and recognize the potential for growth in the agricultural marketplace and an international trading environment that provides fair access to world markets.

In 2000-01, FCC will continue to introduce innovative products and services that meet and exceed the emerging needs of producers and agribusiness. The Corporation will continue to improve processes and increase efficiency. This will free resources and funds to enhance financial and service delivery options for customers.

Because financial viability is the key to FCC's ability to support customers and rural Canada over the long-term, the Corporation will continue to monitor and assess the agricultural and financial environments as well as its own financial performance. For 2000-01, FCC is forecasting net income of $42.6 million – a $4.2 million increase over current year's results. This estimate is based primarily on increased net interest income ($7.4 million) due to portfolio growth, a decrease in provision for credit losses ($12.5 million), an increase in other income ($2.8 million), offset by a decrease in net lease and real estate income ($12.0 million) as a result of reduced property holdings and an increase in administration expenses ($6.2 million). FCC's 100 per cent focus on Canadian agriculture, employees' agricultural expertise and a strong customer-oriented culture will be the drivers of this growth.

FCC Farm Credit Corporation SCA Société du crédit agricole

Canada

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The Corporation's independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

John J. Ryan
President and
Chief Executive Officer

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 12, 2000

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

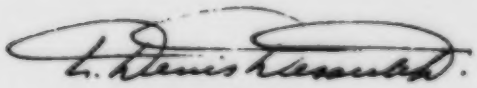
To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 2000 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.



L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 12, 2000

Balance Sheet

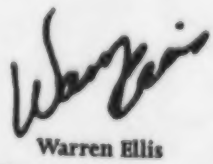
AS AT MARCH 31

	2000	1999
		(thousands of dollars)
ASSETS		
Cash and short-term investments (Note 3)	$ 308,768	$ 245,797
Accounts receivable and other accrued assets	74,874	31,760
Long-term investments (Note 4)	55,557	102,713
Loans receivable (Notes 5 and 6)	6,054,099	5,629,202
Real estate acquired in settlement of loans (Note 7)	64,855	103,395
Equipment and leasehold improvements	12,554	12,194
	$ 6,570,707	$ 6,125,061
LIABILITIES		
Accounts payable and accrued liabilities	$ 23,349	$ 21,699
Accrued interest on borrowings	165,966	122,522
	189,315	144,221
Borrowings (Note 8)		
Short-term debt	1,040,139	1,120,318
Long-term debt	4,700,734	4,237,171
	5,740,873	5,357,489
Other liabilities and deferred fees (Note 9)	13,302	31,505
	5,943,490	5,533,215
EQUITY		
Capital (Note 1)	507,725	507,725
Retained earnings	119,492	84,121
	627,217	591,846
	$ 6,570,707	$ 6,125,061

The accompanying notes are an integral part of the financial statements.

Approved:

Donald W. Black
Chair, Board of Directors



Warren Ellis
Chair, Audit Committee

Statement of Operations and Retained Earnings

FOR THE YEARS ENDED MARCH 31

	2000	1999
	(thousands of dollars)	
INTEREST INCOME		
Loans receivable	$ 470,152	$ 442,331
Investment income	25,337	25,845
	495,489	468,176
Interest expense	341,072	321,923
Net interest income	154,417	146,253
Provision for credit losses (Note 6)	52,743	33,220
Net interest income after provision for credit losses	101,674	113,033
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	29,785	23,013
Operating expenses	1,994	2,452
Interest expense	4,804	5,852
Net lease and real estate income	22,987	14,709
OTHER INCOME	6,415	7,176
INCOME BEFORE OTHER EXPENSES	131,076	134,918
OTHER EXPENSES		
Administration expenses	90,779	90,130
Income taxes (Note 10)	1,926	2,229
Other expenses	92,705	92,359
NET INCOME	38,371	42,559
Retained earnings, beginning of year	84,121	41,562
Dividend (Note 1)	(3,000)	–
RETAINED EARNINGS, END OF YEAR	$ 119,492	$ 84,121

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

FOR THE YEARS ENDED MARCH 31

	2000	1999
	(thousands of dollars)	
OPERATING ACTIVITIES		
Net income	$ 38,371	$ 42,559
Items not involving cash		
Provision for credit losses	52,743	33,220
Change in accrued interest receivable	(30,864)	(10,948)
Change in accrued interest payable	45,110	18,938
Other	15,387	23,816
Cash provided by operating activities	120,747	107,585
INVESTING ACTIVITIES		
Long-term investments	45,734	44,948
Loans receivable disbursed	(1,579,700)	(1,509,900)
Loans receivable repaid	1,095,652	995,459
Change in real estate held	38,540	20,086
Other	(16,032)	(1,523)
Cash used in investing activities	(415,806)	(450,930)
FINANCING ACTIVITIES		
Long-term debt repaid to Canada	(236,194)	(436,250)
Long-term debt from capital markets	1,109,989	1,520,504
Long-term debt repaid to capital markets	(431,349)	(821,058)
Change in short-term debt	(81,416)	182,095
Dividend paid	(3,000)	–
Change in NISA investments held	–	(93,754)
Cash provided by financing activities	358,030	351,537
Increase in cash and short-term investments	62,971	8,192
Cash and short-term investments, beginning of year	245,797	237,605
Cash and short-term investments, end of year	$ 308,768	$ 245,797

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (the Corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

(b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation to eliminate the Corporation's accumulated deficit.

As of March 31, 2000, capital payments received from the Government of Canada amounted to $1,168 million (1999 – $1,168 million). The statutory limit for that same period was $1,175 million (1999 – $1,175 million).

(c) Dividend

On May 26, 1999, the Corporation's Board of Directors declared a dividend in the amount of $3.0 million which was paid on September 30, 1999, to the Corporation's sole shareholder – the Government of Canada.

(d) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities of the Corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2000, the Corporation's total liabilities were 9.5 times the equity of $627.2 million (1999 – 9.3 times the equity of $591.9 million).

2. Significant accounting policies

(a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, amortization of premiums and discounts and write-downs to market value on investments are reported as investment income. Except as noted below for long-term investments acquired to manage funding opportunities in advance of cash requirements, gains and losses on disposal of investments are also reported in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in income as a component of investment income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the lives of the related funding instruments.

(b) Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is well secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

(c) Allowance for credit losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in light of current conditions. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to the year-end loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement.

The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

(d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Recoveries arising from the disposal of real estate are recognized when title to the property passes to the purchaser. These recoveries are included as a component of lease and other revenue.

(e) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term

(f) Translation of foreign currencies

Loans receivable/borrowings and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

(g) Long-term debt

The difference between the ultimate amounts payable (at the initial exchange rates if the long-term debt is denominated in foreign currency) and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for debt with bond index-linked or equity index-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

(h) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency, interest rate, bond index-linked and equity index-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively.

A premium is paid to purchase an option contract. If the option is exercised, the premium is amortized on a straight-line basis over the life of the underlying instrument and reported as an adjustment to interest expense. If not exercised, the premium is recognized at the time the contract expires and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

(i) Pension and other post-retirement employee benefits

Employees participate in the *Public Service Superannuation Act* pension plan administered by the Government of Canada. The Corporation matches employee contributions for current or past service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation.

Upon retirement, employees under the age of 65 are entitled to basic life insurance coverage. The Corporation recognizes the premium costs as incurred.

(j) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or as settlements are reasonably determinable.

(k) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Cash and short-term investments

	Effective interest rate (%)	2000	1999
		(thousands of dollars)	
Cash		$ 19,375	$ 2,606
Short-term investments	5.05 – 5.40	287,739	241,562
Accrued interest		1,654	1,629
		$ 308,768	$ 245,797
Short-term investments consist of instruments with maturities of less than one year, issued by:			
The Government of Canada, its agencies and Crowns		$ 47,890	$ 54,697
Other		239,849	186,865
		$ 287,739	$ 241,562

Other investments consist of short-term instruments issued by the governments of the provinces of Canada and short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2000, the largest total investment in any one institution was $43.6 million (1999 – $37.2 million).

4. Long-term investments

	Effective interest rate (%)	2000	1999
		(thousands of dollars)	
Amounts due within:			
1 – 5 years	4.79	$ 50,000	$ 94,215
Unamortized premium and discount		4,314	7,029
Accrued interest		1,243	1,469
		$ 55,557	$ 102,713

Long-term investments consist entirely of Government of Canada bonds.

5. Loans receivable

	Stated interest rate (%)	2000	1999
		(thousands of dollars)	
Principal amounts due, secured by:			
– mortgages	5.00 – 12.50	$ 5,306,707	$ 4,967,502
– chattels	5.00 – 12.50	721,415	629,519
– notes	5.00 – 12.50	25,087	29,424
		6,053,209	5,626,445
Accrued interest and fees, net of payments held		82,156	86,771
		6,135,365	5,713,216
Recorded investment in impaired loans, secured by:			
– mortgages		156,170	119,743
– chattels		11,377	9,279
– notes		902	1,128
		168,449	130,150
Total loans receivable		6,303,814	5,843,366
Less: Allowance for credit losses (Note 6)		(249,715)	(214,164)
		$ 6,054,099	$ 5,629,202
Principal amounts (excluding impaired loans) due within:			
1 year		$ 1,390,237	$ 1,234,532
1 – 5 years		4,038,768	3,814,871
over 5 years		624,204	577,042
		$ 6,053,209	$ 5,626,445

Management estimates that annually, over the next three years, approximately 8.0% (1999 – approximately 8.0%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2000, $2.4 million (1999 – $2.5 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. Allowance for credit losses

	2000	1999
	(thousands of dollars)	
Balance, beginning of year	$ 214,164	$ 182,700
Write-offs, net of recoveries	(17,192)	(1,756)
Provision for credit losses	52,743	33,220
Balance, end of year	$ 249,715	$ 214,164
Specific allowance	$ 52,215	$ 42,164
General allowance	197,500	172,000
Balance, end of year	$ 249,715	$ 214,164

As at March 31, 2000, the total recorded investment in loans receivable against which a specific allowance has been identified was $168.4 million (1999 – $130.2 million). The general allowance was established against the remaining $6,135.4 million (1999 – $5,713.2 million) investment in loans receivable.

7. Real estate acquired in settlement of loans

	2000	1999
	(thousands of dollars)	
Balance, beginning of year	$ 103,395	$ 123,481
Acquisitions	2,253	622
Disposals	(40,793)	(20,708)
Balance, end of year	$ 64,855	$ 103,395
Real estate under long-term lease, maturing:		
within 1 year	$ 32,115	$ 59,074
from 1 – 2 years	2,863	37,530
from 2 – 3 years	1,107	1,882
from 3 – 4 years	–	792
	36,085	99,278
Real estate held for sale	28,770	4,117
	$ 64,855	$ 103,395

Real estate represents property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases re-price annually.

Included in real estate held for sale is property which, as of March 31, 2000, has been sold on a conditional basis. This property has a recorded value of $17.0 million (1999 – $6.1 million).

	2000	1999
	(thousands of dollars)	
Future expected lease receipts, using current lease rates, due within:		
1 year	$ 1,904	$ 6,861
1 – 5 years	303	2,250
	$ 2,207	$ 9,111

8. Borrowings

The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

(a) Short-term debt

Short-term debt consists of promissory notes payable within one year totaling $1,040.1 million (1999 – $1,120.3 million). The effective interest rate on these notes ranges from 4.91% to 5.54% (1999 – 4.71% to 5.20%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 17, 1999, the Corporation entered into a line of credit agreement with a consortium of Canadian chartered banks allowing it access to funds in the amount of $300 million dollars on a revolving basis. Indebtedness under the credit agreement is unsecured. The credit facility matures on December 14, 2000, but is extendable annually at the option of the Corporation. At March 31, 2000, no amounts were outstanding under this agreement.

(b) Long-term debt

	Stated interest rate (%)	2000	1999
		(thousands of dollars)	
Loans from Canada, secured by notes	6.76 – 9.91	$ 804,604	$ 1,040,798
Loans from capital markets, secured by notes payable in:			
Canadian dollars	nil – 9.00	3,740,130	2,959,869
New Zealand dollars ($100,000,000)		–	80,504
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange Index	–	12,000	12,000
the Euro Top 100 Index	–	56,000	56,000
the S&P 500 Composite Stock Price Index	–	38,000	38,000
the DS Barra Government Bond Index	–	50,000	50,000
		$ 4,700,734	$ 4,237,171

Loans with index-linked interest payments do not provide periodic interest payments but, upon maturity, provide the purchaser with a single payment based on the change in the underlying equity or bond index. The Corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities are as follows:

	2000	1999
	(thousands of dollars)	
Amounts due:		
within 1 year	$ 1,279,186	$ 921,297
from 1 – 2 years	1,060,127	1,019,582
from 2 – 3 years	779,771	594,673
from 3 – 4 years	631,052	652,254
from 4 – 5 years	421,036	479,511
over 5 years	529,562	569,854
	$ 4,700,734	$ 4,237,171

Included in long-term debt is $391.2 million (1999 – $391.2 million) of loans extendable beyond their original due dates at the Corporation's option.

9. Other liabilities and deferred fees

	2000	1999
	(thousands of dollars)	
Other liabilities and deferred fees consist of:		
Agri-Land investment fund	$ 329	$ 1,960
Downpayments on real estate sales	4,577	1,281
Provision for employee termination benefits	3,990	6,010
Obligation under capital lease	–	827
Net currency swap payable	165	14,757
Deferred loan fees	4,241	6,670
	$ 13,302	$ 31,505

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 4.00% per cent (1999 – 4.00%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

10. Income taxes

As at March 31, 2000, timing differences of approximately $206.0 million are available to the Corporation as deductions against future tax liabilities (1999 - $232.0 million). These have not been recognized in the financial statements. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $277.0 million (1999 - $277.0 million) and expires on the dates indicated:

	(thousands of dollars)
March 31, 2001	$ 111,000
March 31, 2003	70,000
March 31, 2005	96,000
	$ 277,000

Income taxes payable by the Corporation represent corporate income taxes under Part I and capital taxes under Part I.3 of the *Income Tax Act*. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and has been reduced by current Part I surtaxes payable.

With the withdrawal from the NISA program in 1999, the Corporation is no longer subject to Part VI tax. Amounts previously paid under the provisions of Part VI tax have been applied against current year Part I taxes payable.

11. Commitments and contingent liabilities

(a) Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises, automobiles and computer equipment, with initial non-cancellable lease terms in excess of one year, are due as follows:

	(thousands of dollars)
within 1 year	$ 6,903
from 1 – 2 years	5,350
from 2 – 3 years	2,980
from 3 – 4 years	1,758
from 4 – 5 years	1,060
over 5 years	952
	$ 19,003

(b) Other commitments and contingent liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 2000, the Corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $1.6 million (1999 – $1.1 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its customers.

As at March 31, 2000, loans to farmers and agribusiness approved but undisbursed amounted to $138.1 million (1999 – $185.6 million). These loans were approved at an average interest rate of 8.79% (1999 – 7.68%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 31, 2000.

12. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize a date using "00" as the year 1900 or some other date, rather than the year 2000. This could result in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Although the change in date has occurred, it is not possible to be certain that all aspects of this issue, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved and that the problems will not adversely affect the Corporation. In addition, the failure of the Corporation's borrowers to fully address the Year 2000 issue may result in increases in impaired loans and provisions for credit losses in future years.

13. Derivative financial instruments

The Corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign currency borrowings. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce the risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to counterparty credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality (Aa3 from Moody's or AA- from S&P or better). Additionally, International Swaps and Derivatives Association, Inc. (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2000, was $425.1 million (1999 – $493.4 million) and the largest replacement cost of contracts with any institution as at March 31, 2000, was $9.2 million (1999 – $3.2 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 2000, were as follows:

2000 Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
				(thousands of dollars)		
Interest rate contracts:						
Swap contracts						
Receive	Pay					
Floating	Fixed	$ 90,000	$ 209,000	$ 7,900	$ 306,900	$ (3,706)
Fixed	Floating	322,200	176,000	80,000	578,200	(4,135)
Fixed	Fixed	20,000	40,000	–	60,000	4,194
Floating	Floating	–	–	857	857	20
Equity index-linked	Floating	–	49,000	19,000	68,000	12,343
Equity index-linked	Fixed	38,000	–	–	38,000	(1,822)
Bond index-linked	Floating	50,000	–	–	50,000	(1,709)
Forward rate agreements		–	–	–	–	–
Purchased options		10,000	–	–	10,000	51
		530,200	474,000	107,757	1,111,957	5,236
Foreign exchange contracts:						
Cross-currency swaps						
Receive	Pay					
CDN fixed	USD fixed	51,000	5,000	–	56,000	(674)
CDN fixed	USD floating	–	2,250	–	2,250	(61)
CDN fixed	GBP fixed	29,860	–	–	29,860	36
NZD fixed	CDN fixed	–	–	–	–	–
		80,860	7,250	–	88,110	(699)
Total		$ 611,060	$ 481,250	$ 107,757	$ 1,200,067	$ 4,537

1999 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
				(thousands of dollars)		
Interest rate contracts:						
Swap contracts						
Receive	Pay					
Floating	Fixed	$ 111,200	$ 284,000	$ –	$ 395,200	$ (11,405)
Fixed	Floating	236,200	212,000	–	448,200	3,470
Fixed	Fixed	45,000	40,000	–	85,000	3,294
Floating	Floating	–	–	857	857	35
Equity index-linked	Floating	–	49,000	19,000	68,000	592
Equity index-linked	Fixed	–	38,000	–	38,000	(3,247)
Bond index-linked	Floating	–	50,000	–	50,000	(321)
Forward rate agreements		150,000	–	–	150,000	(5)
Purchased options		170,000	10,000	–	180,000	528
		712,400	683,000	19,857	1,415,257	(7,059)
Foreign exchange contracts:						
Cross-currency swaps						
Receive	Pay					
CDN fixed	USD fixed	–	5,000	–	5,000	(161)
CDN fixed	USD floating	–	2,250	–	2,250	(13)
CDN fixed	GBP fixed	–	–	–	–	–
NZD fixed	CDN fixed	95,000	–	–	95,000	(10,529)
		95,000	7,250	–	102,250	(10,703)
Total		$ 807,400	$ 690,250	$ 19,857	$ 1,517,507	$ (17,762)

Included in derivative financial instruments is $391.2 million (1999 – 391.2 million) of interest rate swap and option contracts extendable beyond their original due dates.

14. Interest rate risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate financial instruments and on the fair value of fixed-rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's financial instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating-rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

2000 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 289,393	–	–	$ 289,393
Average yield	5.27%	–	–	5.27%
Long-term investments	$ –	55,557	–	$ 55,557
Average yield	–	4.79%	–	4.79%
Loans receivable (1)				
– Fixed-rate	$ 1,203,026	3,153,728	536,88[illegible]	$ 4,893,640
Average yield	8.03%	7.87%	8.45%	7.97%
– Floating-rate	$ 206,080	939,855	95,790	$ 1,241,725
Average yield	7.90%	8.08%	8.12%	8.05%
Short-term debt	$ 1,046,337	–	–	$ 1,046,337
Average yield	5.16%	–	–	5.16%
Long-term debt	$ 1,322,891	2,989,663	547,948	$ 4,860,502
Average yield	5.65%	5.98%	5.74%	5.86%

1999 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 243,191	–	–	$ 243,191
Average yield	4.99%	–	–	4.99%
Long-term investments	$ –	102,713	–	$ 102,713
Average yield	–	4.87%	–	4.87%
Loans receivable (1)				
– Fixed-rate	$ 1,136,760	3,389,891	561,309	$ 5,087,960
Average yield	7.98%	7.89%	8.31%	7.96%
– Floating-rate	$ 116,811	483,813	24,632	$ 625,256
Average yield	7.84%	7.82%	7.92%	7.82%
Short-term debt	$ 1,127,753	–	–	$ 1,127,753
Average yield	4.96%	–	–	4.96%
Long-term debt	$ 946,568	2,820,430	585,260	$ 4,352,258
Average yield	6.10%	6.01%	6.44%	6.09%

Note: (1) Loans receivable excludes impaired loans.

15. Fair values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

	2000		1999	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(thousands of dollars)			
Assets				
Cash and short-term investments	$ 308,768	$ 308,768	$ 245,797	$ 245,797
Accounts receivable and other accrued assets	74,874	74,874	31,760	31,760
Long-term investments	55,557	53,493	102,713	102,397
Loans receivable	6,054,099	6,025,248	5,629,202	5,721,720
Liabilities				
Accounts payable and accrued liabilities	$ 23,349	$ 23,349	$ 21,699	$ 21,699
Accrued interest on borrowings	165,966	165,966	122,522	122,522
Short-term debt	1,040,139	1,039,837	1,120,318	1,120,667
Long-term debt	4,700,734	4,695,442	4,237,171	4,378,054

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and short-term investments, accounts receivable and other accrued assets, accounts payable and accrued liabilities, and accrued interest on borrowings.

Fair value for long-term investments is determined by reference to quoted market prices.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

Estimated fair value for short-term debt and long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year end for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates. The allowance for credit losses is valued at its balance sheet carrying value.

Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 13.

16. Segmented information

The Corporation is engaged in two distinct business segments: agricultural lending and real estate management. Both operate exclusively in Canada. Details regarding these segments are readily available in the Corporation's financial statements.

17. Comparative figures

Certain 1999 comparative figures have been reclassified to conform with the presentation adopted in 2000.

Corporate Governance

A Report from the Board of Directors

Board Stewardship

FCC's Board of Directors is responsible for overseeing FCC's management and business in the best interests of the Corporation and the long-term interests of the Government of Canada. The Board's responsibilities are set down in the *Farm Credit Corporation Act* and the *Financial Administration Act*.

The Board discharges its responsibilities directly and through committees that include Audit, Corporate Governance and Human Resources. Formal recommendations are presented to the full Board of Directors for consideration. The Board meets regularly to review strategic direction, business operations and financial results, and to receive committee reports.

Board responsibilities

As part of its overall stewardship responsibility, the Board:

- establishes and approves the strategic direction, corporate plan and budgets in co-operation with senior management;
- assures that the principal business risks have been identified and that appropriate systems to manage these risks are in place;
- ensures a management succession plan is in place; and
- assures that information systems and practices meet the Board's needs for confidence in information integrity.

Actions requiring board approval

There is a clear understanding between management and the Board of Directors, through historical board practice and accepted legal practice, that all transactions or matters of a material nature must be presented to the Board for approval. The Board by-laws state that all significant corporate policies require Board approval, including the corporate plan as well as the strategic, financial and borrowing plans. The Board of Directors believes it is well informed as to the business and affairs of FCC and that appropriate matters have been brought to the Board for approval.

Director appointment and renewal

The Governor in Council appoints the Chair and the President of the Corporation. The Minister of Agriculture and Agri-Food appoints all other Directors with approval of the Governor in Council. Directors are appointed for terms of up to three years and are eligible for reappointment. FCC's Board members include successful primary producers and other business people from rural and small urban centres. The members are leaders in the agri-food and financial services industries.

The Board of Directors has approved a Chair profile and a Director profile that set out the desired qualifications, experience, duties and responsibilities of these positions. These profiles will serve as a frame of reference for the selection of future candidates.

Board education

Each member of the Board receives a detailed orientation briefing upon appointment. They participate in development activities, including attendance at educational seminars sponsored by the Conference Board of Canada and periodic board in-service governance sessions with experts on governance. This fiscal year, Directors attended seminars, bringing back information and best practices to the Corporate Governance Committee for discussion and implementation.

Loans where Directors may have a material interest

Agriculture and agribusiness knowledge is one of the key attributes for a Board member to possess. The Board recognizes that Directors who are drawn from the agricultural sector may, from time to time, become FCC customers.

It is therefore desirable for the Board to have a clearly enunciated policy governing the matter of loans where directors may have a material interest. The policy established by the Board, along with the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders, clearly sets out a process to distance a Director from direct involvement in the particular transaction and to withdraw from making any representations thereon.

Directors must disclose any interest in, and refrain from voting in respect of, any material contract with the Corporation. The policy further states that any such loan or material contract involving a director shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to either. The loan request is processed at the district or provincial level and not at the office in the Director's immediate area. No senior management executive is involved with the loan other than the Vice-President of Risk Management. As a matter of governance practice, the Board has no involvement in the approval of any loans including their terms, conditions or interest rates.

Public policy objectives and communications

As part of the strategic planning process, the Board examines FCC's public policy and strategic objectives and periodically reviews the legislative mandate to ensure its continuing relevance. The Board must also be satisfied with the main messages contained in FCC's corporate plan, annual report and budget summaries.

Board Composition

The Board of Directors is composed of 12 members including Chair, Chief Executive Officer and 10 Directors. Eleven of the Directors, including the Chair, are independent of management and the Board has in place policies and procedures to ensure that Directors have the ability to exercise judgement with a view to the best interests of the Corporation.

FCC's President and Chief Executive Officer is appointed on a full-time basis by the Governor in Council and is also member of the Board of Directors. John J. Ryan was appointed to this position on September 1, 1997.

Audit Committee

Chair: Warren Ellis
Members: Donald W. Black
Rosemary Davis
Rashpal Dhillon
Maurice Kraut
Marie-Andrée Mallette
Germain Simard

Composed of seven non-management Directors, the Audit Committee's primary functions are to oversee FCC's financial performance; monitor activities by reviewing the Corporation's financial and operational reporting systems, internal control systems and audit processes; and to make recommendations accordingly. In discharge of its responsibilities, the Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General – the auditors for FCC.

During this fiscal year, the Audit Committee met five times and carried out its mandate in five key areas:

- reviewed and approved the 1998-99 Financial Statements and Annual Report and the quarterly financial results for the fiscal year 1999-2000;
- reviewed and approved the 1999-2000 annual corporate audit plan and all final audit reports issued, as well as the status of actions taken by management to address areas requiring improvements;
- reviewed and approved Board and CEO expenses for fiscal 1999-2000;
- received and reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 1998-99, as well as the plan for the 1999-2000 annual audit; and
- reviewed the establishment of a new field audit program.

Board Committees

Human Resources Committee

Chair: Eleanor M. Hart
Members: Donald W. Black
Edward W. Clark
Rashpal Dhillon
Lois Hole
John J. Ryan
Marilyn Marie Scott
Germain Simard

The Human Resources Committee is composed of eight Directors. The Committee's primary responsibility is to review all major human resources policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on management development, performance evaluation and succession planning with respect to the Chief Executive Officer. In addition, it oversees the management development plan, management succession plan framework, employment equity policy and official language policy of the Corporation, as well as the design, objectives and competitiveness of FCC's compensation plans.

During this fiscal year, the Human Resources Committee met six times and carried out the following activities:

- set the CEO's objectives;
- evaluated the CEO's performance;
- examined the Corporation's compensation policies;
- reviewed the matter of establishing an FCC pension plan;
- assessed the Corporation's performance in the area of official languages; and
- reviewed the 1999 employee satisfaction survey results.

Corporate Governance Committee

Chair: Edward W. Clark
Members: Donald W. Black
Rosemary Davis
Eleanor M. Hart
Maurice Kraut
Marie-Andrée Mallette
John J. Ryan
Marilyn Marie Scott

The Corporate Governance Committee provides a focus on Board governance, as well as assessment and recommendations to the Board regarding corporate values and the elements that facilitate its effectiveness. The Corporate Governance Committee is comprised of seven non-management members, as well as the Chief Executive Officer.

The Committee:

- develops and recommends enhancements to the Corporation's system for corporate governance, as well as implements and manages the system;
- advises the Board of any governance issues or processes which need to be considered by the Board or any of its committees; and
- reviews and makes recommendations on governance accountability statements for the roles of the Board, Chair, Board members, Committee Chairs and the Chief Executive Officer.

During this fiscal year, the Corporate Governance Committee met four times and carried out the following activities:

- in-depth discussions on approaches to strategic planning issues;
- enhanced links between the Board, CEO and senior management;
- refined Board material, content and timing in its delivery; and
- reviewed the Corporate by-laws and made necessary recommendations.

After the Directors completed a Board evaluation process in March 1999 that identified opportunities for further governance development, the Corporate Governance Committee recommended a progress review. The Board carried out the review and assessed progress in implementing recommendations from the Board evaluation process.

Board and Management Relations

A Board's ability to work closely with management and simultaneously function with an independent perspective is central to effective corporate governance. FCC's Board strives to develop a strong working relationship with all members of senior management. In turn, it expects FCC management to implement the Corporation's strategy and business plan and to keep the Board apprised of its activities.

In conjunction with the Chief Executive Officer, the Board also ensures that an appropriate allocation of responsibilities between both parties occurs. In addition, the Board establishes clear accountability, including a set of corporate objectives and an evaluation framework for the CEO.

Throughout the year, the Board of Directors has maintained a commitment to open communication between itself and management. Members of senior management regularly attend and participate in the discussions at Board meetings on a rotational basis. The Board established a corporate pension committee comprised of appointed and elected FCC management and staff to represent the interests of employees in governing FCC's pension plan. The Directors also contributed to the development of the new compensation plan for all FCC employees and approved its final content.

Board Remuneration

For the performance of their duties, Directors are paid an annual retainer and per diem amounts, which are set by the Governor in Council pursuant to the *Financial Administration Act* on the recommendation of the Minister of Agriculture and Agri-Food.

The Chair of the Board receives an annual retainer of $6,500 and per diem of $375 for meetings attended. Committee Chairs receive an annual retainer of $4,250 and $300 per day for meetings attended. All other Board members receive an annual retainer of $3,500 and a per diem of $300 respectively. Per diems are paid for time spent performing corporate business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee. Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties on behalf of the Corporation. These expenses vary from Director to Director according to committee responsibilities and distance traveled to participate in Board meetings.

Director	Board Retainer (A)	Per Diems (B)	Total Remuneration (A&B)	Board Meeting Attendance (%)	Committee Meeting Attendance[1] (%)	Board Expenses
Donald W. Black	$ 6,500	$ 6,000	$ 12,500	89	85	$ 14,560
Edward W. Clark	4,250	7,200	11,450	100	100	24,800
Rosemary Davis	3,500	6,300	9,800	89	90	15,320
Rashpal Dhillon	3,500	5,400	8,900	78	82	13,640
Warren Ellis	4,250	9,900	14,150	100	100	29,240
Eleanor M. Hart	4,250	6,600	10,850	100	100	15,760
Lois Hole[2]	3,240	3,300	6,540	75	80	5,860
Maurice Kraut	3,500	4,200	7,700	100	67	2,770
Marie-Andrée Mallette	3,500	7,500	11,000	100	100	20,450
Marilyn Marie Scott	3,500	4,800	8,300	100	100	7,910
Germain Simard	3,500	7,500	11,000	89	100	20,050
Total	**$ 43,490**	**$ 68,700**	**$112,190**	**9 meetings**		**$170,360**

[1] Fifteen Committee meetings were held: five Audit, six Human Resources and four Corporate Governance Committee meetings.

[2] Lois Hole stepped down from the Board in February 2000.

Board of Directors

The 12 members of FCC Board of Directors bring a wealth of diverse experience and backgrounds in Canada's agricultural and financial industries to their stewardship of FCC. One common trait they all share is a passion for agriculture. The following profiles illustrate the strengths they bring to their positions, as well as the personal nature of their commitment to the agricultural industry.

Donald W. Black

Chair since January 11,1995, member, Audit, Corporate Governance, and Human Resources Committees

- President and Chief Executive Officer of Greystone Capital Management Inc., a Regina-based independent investment counseling firm with $10 billion under management
- Served as director of public companies, such as TGS Properties Ltd. and the Luscar Coal Income Fund, as well as private companies, industry associations and charitable organizations
- Strong believer in the business sector's support of the community and serves on the Canadian Scholarship Trust plan

"As someone from the Prairies, agriculture literally surrounded me growing up. I have infinite respect for the work ethic and ingenuity farmers routinely demonstrate in their day-to-day business."

Edward W. Clark

Director since May 28,1996, Chair, Corporate Governance Committee and member, Human Resources Committee

- Owner/operator, beef and forage farm, Miscouche, Prince Edward Island for 40 years
- Served on Minister's Advisory Committee that named the Confederation Bridge connecting P.E.I. to the mainland
- Won the Friend of 4-H award commemorating commitment to the 4-H organization in 1995
- Elected to the Prince Edward Island Legislative Assembly in 1970 and served as Minister of Agriculture and Forestry and the Speaker of the Legislative Assembly among other portfolios, retired as an MLA in 1996
- Strong commitment to community: former president of P.E.I. Junior Farmers, former member of Federation of Agriculture, past provincial president of the P.E.I. Shorthorn Breeder's Association, 4-H Leader for 20 years

"I was born on a farm on Prince Edward Island and have always had a great love for the soil and the environment. I believe it must be protected for future generations."

Rosemary Davis

Director since December 19, 1995, member, Audit and Corporate Governance Committees

- Owner/operator, Tri-Country Agromart Ltd., a retail and wholesale fertilizer plant, farm supply, feed store and garden centre in Trenton, Ontario
- Director, Trenval Development Corporation; Chair of the Agriculture Committee, member of the Organizing Committee of the Quinte Farm Show
- Involved in the Fertilizer Institute of Ontario Fertilizer Use Committee, Ontario Federation of Agriculture, Soil and Crop Associations of Northumberland, Hastings, Prince Edward, the Northumberland Apple Growers Association and Rotary International

"I enjoy agriculture because of the innovative, intelligent and hardworking people that shape the agricultural business world."

Rashpal Dhillon

Director since June 6, 1995, member, Audit and Human Resources Committees

- President and Chief Executive Officer, Richberry Farms Ltd, a cranberry and blueberry operation based in Richmond, B.C. and General Partner and Chief Executive Officer of Pitt Meadows Farms Ltd., a cranberry operation; Director/owner of Richview Golf Centre
- Former Director/Secretary of the Richmond Farmers Institute and the British Columbia Cranberry Marketing Board; former Director/Vice-President of the British Columbia Blueberry Co-operative and the Richmond Foundation.
- Director of the Canadian National Institute for the Blind, B.C.-Yukon Division, 20/20 Foundation

"I was born on a small farm in India. I grew up as a child working on our family farm. In my teens, I immigrated to Canada where I worked in several different non-agricultural jobs. However, my passion for farming was still burning strong. I invested in farms in California and every summer I took my family to harvest our crops. Years later, I invested in Canada. As my business grew, I decided that agriculture would be my full-time business. Today, my endeavors in agriculture have been very rewarding, both personally and financially."

Warren Ellis

Director since April 4, 1995, Chair, Audit Committee

- Proprietor, Warren Ellis Produce, O'Leary, Prince Edward Island, a mixed farming operation of potatoes, barley, wheat and feeder cattle
- President of O'Leary Potato Packers Ltd., a potato processing operation that processes and markets throughout North America and the Caribbean
- Past Board member of Western School Board and P.E.I. Lending Authority; past Chair of O'Leary Community Sports Centre and Potato Blossom Festival
- Atlantic Region honoree in Canada's Outstanding Young Farmers Program in 1994
- Avid supporter of the Terry Fox Foundation – his family's fundraising efforts surpassed that of all other families in Eastern Canada by raising the highest amount of money for the Foundation in 1999

"I was born on Prince Edward Island – 'The Million Acre Farm.' Having grown up working with agriculture, I have come to admire and respect the people who have chosen farming as a career. There is no other group that works as hard for such little return since farmers are at the start of the production chain. Farmers are the foundation of the nation we call Canada."

Eleanor M. Hart

Director since May 2, 1995, Chair, Human Resources Committee and member, Corporate Governance Committee

- Farm partner/owner, Lokoja Farms in Woodstock, Ontario
- Past-President, Ontario Home Economics Association
- Parenting counsellor for local school councils and rural drop-in programs for parents and children
- Past Director of the Oxford County Federation of Agriculture and former member of the Agricultural Research Institute of Ontario
- Active with the Woodstock Campus Fanshawe College, participating in advisory boards and was a member of its evaluation committee for the Farm Business Management Course
- Member of Canadian Home Economics Association and the National International Development Committee of CHEA, which works to support efforts in developing countries in the area of food security and women's empowerment

"I know of no other industry that affects the whole social fabric of a country. From wholesome food production to job creation in rural Canada, agriculture has always been a point of stability for Canadian families and communities. In good and challenging times, agriculture has served Canada well."

Lois Hole

Director since April 4, 1995, member, Human Resources Committee, stepped down February 2000 to become Lieutenant-Governor of Alberta.

- Owner Hole's Greenhouses and Gardens, Ltd., a 40-year-old operation in St. Albert, Alberta that is one of the largest retail garden centres and greenhouses in Western Canada and regarded as a premier supplier of quality plants and gardening-related resources in Canada
- Published author and renowned gardening expert with six Canadian best selling books to her credit, as well as numerous columns in the Globe and Mail, the Edmonton Journal and the Edmonton Sun
- Affiliations have included the Canadian Heritage Garden Foundation, Child & Adolescent Services Association; Quality of Life Commission; Poverty in Action; The Alberta Congress and the Edmonton Mayor's luncheon for the Arts
- Served as Chancellor of the University of Alberta Senate and has received many awards, including an honourary doctorate from Athabasca University and the Order of Canada

"Agriculture hasn't just provided me and my family with a healthy life; it's given me the knowledge and personal growth I needed to make a difference in the community. If you treat the land with respect, it will reward you with all the rich bounty life has to offer."

Maurice Kraut

Director since June 28, 1999, member, Audit and Corporate Governance Committees

- Operates own firm – Agriculture Consulting – based in Winnipeg
- Co-owner and operator of a cattle and grain farm enterprise
- Serves as a policy analyst to the Beef Industry Committee of the Saskatchewan Stock Growers Association, Heartland Livestock Services and the Saskatchewan Cattle Feeders Association
- Has served successful terms as Research Director for the Canada Grains Council and Assistant Deputy Minister of Agriculture in Manitoba
- Served 16 years as the agriculture policy commentator for the CBC Farm Report in Winnipeg
- Taught policy and marketing at the University of Manitoba

"I have had a lifelong involvement in agriculture – including agricultural consulting, commentary and teaching. I continue to enjoy working in this business alongside producers, as both evolve and progress."

Marie-Andrée Mallette

Director since June 16, 1995, member, Audit and Corporate Governance Committees

- Farmer, large-scale farming of commercial crops and coloured beans in Quebec
- Lawyer specializing in agricultural, municipal, real estate, international trade corporate and commercial law in Ste-Martine/Châteauguay, Quebec for 14 years
- Regional Director of the Quebec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec)
- Works actively with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power and the Canadian Bar Association and shares her own experience with exporting to assist and guide producers
- New owner of a supermarket in Châteauguay region

"My passion for agriculture came from my parents. I endorse it because, in my opinion, it is the base of our lives and society, and I am proud to be able to grow quality products so our communities can eat."

John J. Ryan

Director since September 1, 1997, member, Corporate Governance and Human Resources Committees

- President and Chief Executive Officer, Farm Credit Corporation, Regina, Saskatchewan
- Currently serves on the Board of Trustees with the Canadian Athletic Foundation, the Board of Directors for the Hospitals of Regina Foundation and is a member of St. Francis Xavier's Millennium project
- Served as Vice-Chair in the United Way 1999 campaign in Regina and is the Chair for the Year 2000 campaign
- Board member of the Adult Learning Centre in Regina

"I am continually inspired by the innovation, commitment and hard work that Canadian producers display each year as the agricultural industry undergoes transformation and faces new challenges."

Marilyn Marie Scott

Director since October 24, 1996, member, Human Resources and Corporate Governance Committees.

- Lawyer specializing in agriculture law, wills and estates and Partner in Scott & Weber Law Firm, Humboldt, Saskatchewan
- Earned a Bachelor of Commerce degree from the University of Saskatchewan in 1977, followed by a Bachelor of Law degree in 1978 and admittance to the Saskatchewan Bar in 1979
- Member and past Director of Women Entrepreneurs of Saskatchewan and current Chairperson of the Humboldt & District Chapter of Women Entrepreneurs, member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association
- Active community involvement includes Girl Guide leader, as well as various church, educational and hospital liaisons

"While I am one of the few Board members who is not involved directly in agriculture, it is the heart of my community and a central focus of my business. Life in rural Saskatchewan reflects the determination, co-operative spirit and optimism of our farmers. Those of us who have been lucky enough to grow up in these rural communities appreciate those roots and the need to keep agriculture strong."

Germain Simard

Director since June 6, 1995, member, Audit and Human Resources Committee

- Owner (with his two sons) of Ferme de l'Anse Enr., an operation that includes dairy production, field crops and agro-tourism (on-farm accommodations)
- 1971-1991 – President of the Union des producteurs agricoles (UPA) for Saguenay-Lac-Saint-Jean; responsible for several committees; member of the Quebec UPA General Council and Executive; member of the Commission professionnelle de l'Agriculture; committee member of a training program for young farmers
- Since 1992 – Executive Vice-President of the Fédération des Agricotours du Québec; President of the Fédération des Agricotours du Québec for the Saguenay-Lac-Saint-Jean region
- Member of the agri-food co-operative Nutrinor
- Member of the Caisse populaire Desjardins

"Agriculture allows me to be close to nature and to be my own boss. I think it is a wonderful profession. The business of feeding people is of the utmost importance and very rewarding."

Glossary of Terms

Agribusiness/Value Added – Agribusiness includes businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

Alliances – Alliances are relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services to primary producers and agribusiness.

Allowance for Credit Losses – Management's estimate of probable credit losses in the loans receivable portfolio. The allowance is increased by specific and general provisions for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Asset/Liability Management Committee (ALCO) – A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Corporate Governance – Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Credit Risk – The risk of financial loss occurring as a result of a default on obligations to the Corporation.

Derivative Financial Instrument – A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts, and futures.

Efficiency Ratio – Administration expenses as a percentage of income before recovery on real estate and provision for credit losses.

Foreign Exchange Risk (FX) – The risk of financial loss due to adverse movements in foreign currencies.

Gap Analysis – A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes.

Hedge – A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired Loans – Loans are classified as impaired when, in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where payment is 90 days past due is classified as impaired, unless the loan is well secured.

Interest and Currency Rate Swaps – Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest Expense – Expense to the Corporation incurred from the use of interest bearing funding instruments.

Interest Income – Income earned on loans receivable, cash and investments.

Interest Rate Option – A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest Rate Risk (IRR) – Exposure to a decline in net interest income and capital position as a result of a relative or absolute change in interest rates. Varieties of interest rate risk include: prepayment risk, commitment risk, and reinvestment risk.

Leverage – The relationship between total liabilities and the equity of a business.

Liquidity Risk – The risk that required funds will not be readily available to meet Corporate obligations in a timely manner.

Loan Renewal Rate – Percentage ratio of principal dollars renewed to principal dollars matured.

Market Value of Portfolio Equity (MVPE) – The net present value of assets less liabilities. It is used to measure the sensitivity of the Corporation's net economic worth to changes in interest rates.

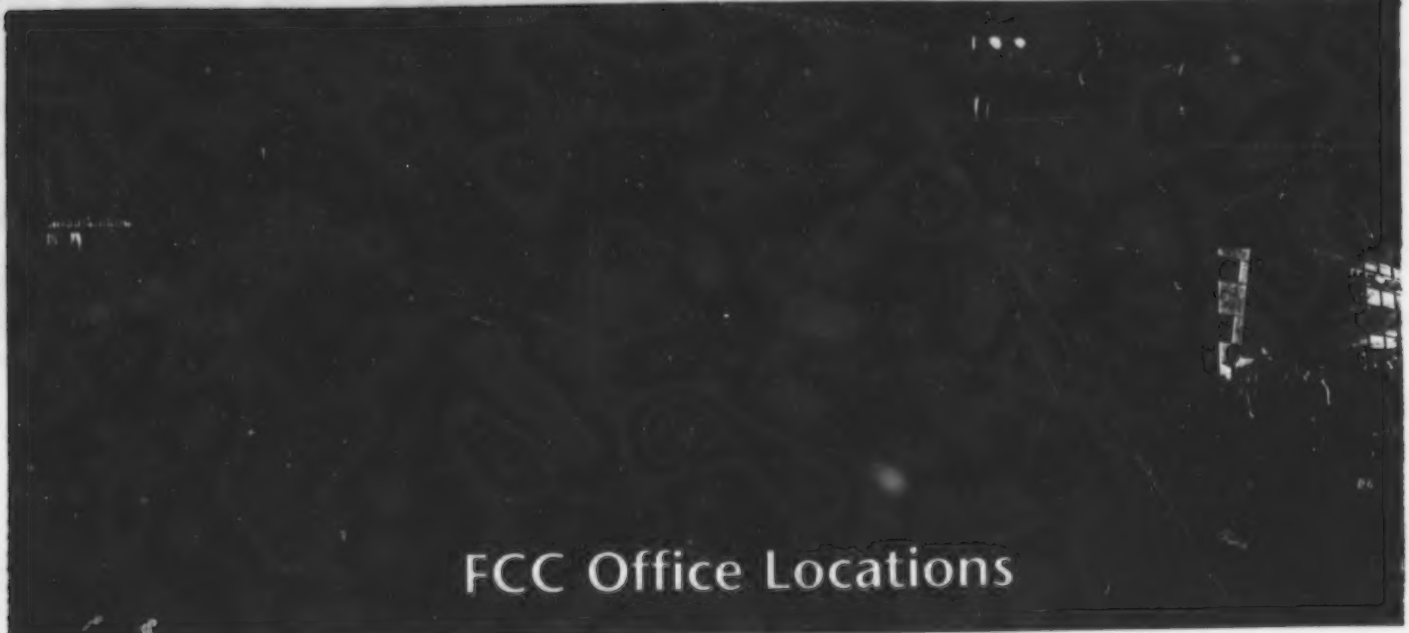
Net Interest Income (NII) – The difference between the interest earned on assets, such as loans and securities, and interest expense on liabilities, such as deposits and loans payable.

Net Interest Margin – Net interest income expressed as a percentage of average total assets.

Notional Principal – A reference amount upon which payments for derivative financial instruments are based.

Return on Assets (ROA) – Net income expressed as a percentage of average total assets.

Return on Equity (ROE) – Net income expressed as a percentage of average equity.



FCC Office Locations

British Columbia:
Abbotsford, Dawson Creek, Duncan, Kelowna

Alberta:
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul, Stettler, Stony Plain, Vegreville, Vermilion, Westlock, Westaskiwin

Saskatchewan:
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba:
Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage La Prairie, Steinbach, Stonewall, Swan River, Virden

Ontario:
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lambeth, Lindsay, Listowel, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec:
Alma, Drummondville, Gatineau, Granby, Joliette, Rock Forest, St-Jérôme, Rivière-du-Loup, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Foy, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick:
Grand Falls, Moncton, St. George, Sussex, Woodstock

Newfoundland:
St. John's

Nova Scotia:
Kentville, Truro

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